

1                               **3.       November 2, 2017 – Misstatement No. 11**

2               264.     Later on the same call, an analyst asked the Company for more detail about  
3 PG&E's vegetation management practices. President and COO Nickolas Stavropoulos replied as  
4 follows:

5                               [ANALYST:] And then, I guess, *can you discuss your vegetation*  
6 *practices for trees that are located near power lines?* I guess  
7 we've seen sort of end reports that have come out for some of your  
8 peers that they sort of track vegetation that's within certain  
9 distances from the lines, and they basically make their decisions on  
10 what to do based on sort of updates.

11                              [Stavropoulos:] Thank you for the question. So as Geisha  
12 mentioned, we have a very aggressive vegetation management  
13 program across our 70,000-mile -- square mile territory. We  
14 manage about 123 million trees that are near and adjacent to our  
15 facilities. *And over the last 2 years, we've doubled the amount*  
16 *that we've invested in veg[etation] management.* That includes  
17 line clearing to remove parts of trees that are adjacent to our  
18 facilities as well as removal of dead and dying trees. So the  
19 program involves year-round effort to identify these dead and  
20 dying trees through inspection processes where we use foot and  
21 aerial patrols; we use LiDAR, which is light, detecting and ranging  
22 technology, to identify the trees that need to be worked. *We*  
23 *inspect all of our overhead lines every year, and we do second*  
24 *patrols in high fire danger areas at least twice a year. In some*  
25 *areas, we do as often as 4x a year.* So it's a very aggressive  
26 program. There are specific requirements around line clearing, and  
27 it depends upon the voltage of the lines. And it can range up to feet  
28 [sic] to as much as sort of 18 inches away from the facility. So there  
are all sorts of different requirements, depending upon where the  
facilities are located and the voltage of the facilities.

29               265.     This statement was materially false and/or misleading because PG&E did not  
30 "doubl[e] the amount that we've invested in veg[etation] management." As explained in Section  
31 VI.B., *supra*, PG&E's Vegetation Management Balancing Accounts for the relevant years  
32 indicate that PG&E spent \$194,094,406 on vegetation management in 2015, \$198,735,579 in  
33 2016, and \$201,456,193 in 2017. Moreover, the lack of improvement to PG&E's vegetation  
34 management practices was confirmed by PG&E's own Vegetation Program Manager Richard  
35 Yarnell, who reportedly testified under oath that, even by April 10, 2017: "PG&E—to the best of  
36 my knowledge, we have not made any changes as a result of th[e Butte] fire," *i.e.*, since  
37 September 2015.

266. Second, PG&E failed to comply with safety regulations specifically related to vegetation management. By representing that it “inspect[s] all of [its] overhead lines every year,” and inspects some trees “twice” or “4x” each year, Stavropoulos falsely created the impression that PG&E would prevent many safety violations from occurring, especially in “high fire danger areas” such as those where the North Bay Fires and Camp Fire erupted. In reality, safety violations were so pervasive that they evidently caused both ignition points of the Camp Fire as well as at least eleven fires at the same time in **seven** different counties. In touting its “very aggressive vegetation management program,” the statement actionably omitted the widespread failure of these measures to bring PG&E into compliance. Indeed, if PG&E had been properly “inspect[ing] all of our overhead lines “every year,” “twice a year,” or “4x a year,” many of the causes of the North Bay Fires and Camp Fire would have been discovered and the fires prevented. For instance, in addition to the fires caused by dead or dying trees, Cal Fire found that the Cascade Fire was caused “by sagging power lines coming into contact” and the Blue Fire was caused when “a PG&E power line conductor separated from a connector.”

267. As another example, in the afternoon of November 8, 2018, PG&E’s aerial inspection of the 115 kilovolt transmission line that caused the Camp Fire discovered “damage to a transmission tower” carrying that electrical line. PG&E has also acknowledged a second ignition point for the Camp Fire that exhibited damaged and downed poles, vegetation on top of downed wires, and other signs of safety violations. Cal Fire has determined that PG&E caused both of these ignition points.

268. Third, PG&E has admitted that it did not “inspect all of our overhead lines every year,” much less “twice a year” or “4x a year,” because at the time this statement was made, it did not inspect Tower :27/222 of the Caribou-Palermo transmission line since August 2014. This lack of annual inspection contributed to Tower :27/222’s failure on November 8, 2018, which was part of the Camp Fire’s first ignition point.

269. Fourth, this statement materially omitted the true risk that PG&E would cause wildfires serious enough to imperil the Company’s financial condition.

1                   **4. November 5, 2017 – Misstatement No. 12**

2           270. At all relevant times, PG&E's Media Relations department maintained a news  
3 website named *Currents*,<sup>98</sup> providing news, information, and commentary about PG&E's  
4 activities, including the delivery of electricity and the operation, maintenance, and safety of the  
5 Company's electric services. Through the website, PG&E repeatedly touted the safety of its  
6 power lines, the Company's vegetation management program, and its purported success  
7 mitigating wildfire risk.

8           271. In one such article, dated November 5, 2017 and titled "Facts About PG&E's  
9 Wildfire and Prevention Safety Efforts," PG&E reassured investors that "*PG&E meets or*  
10 *exceeds all applicable federal and state vegetation clearance requirements.*"<sup>99</sup>

11           272. This statement was materially false and/or misleading because PG&E did not  
12 "meet" – much less "exceed" – "all applicable ... state vegetation clearance requirements."

13           273. First, according to reports released in subsequent corrective disclosures, including  
14 on May 25 and June 8, 2018, PG&E violated relevant wildfire safety laws, including California  
15 Public Resources Code Section 4293, multiple times. *See* Section VII.D.4., *infra*.

16           274. Second, Cal Fire found sufficient evidence of violations of state law to refer  
17 PG&E to the relevant district attorneys for eleven of the North Bay fires. *See* Sections IX.D.4-5,  
18 *infra*.

19           275. Third, investigations into the causes of the Camp Fire have already disclosed  
20 evidence that this most destructive and deadly wildfire in California history was caused by  
21 PG&E violating California Public Resources Code Section 4293 and California Public Utilities  
22 Code Section 451, among other safety regulations. Indeed, Cal Fire has found that PG&E  
23

24           <sup>98</sup> *Currents*, PG&E, <http://www.pgecurrents.com>.

25           <sup>99</sup> On November 14, 2017, PG&E spokesperson Greg Snapper repeated this false and  
26 misleading reassurance *verbatim* in an NBC article titled "Utility Company's Risk Assessment at  
27 Issue in NorCal Wildfires." *See* Jaxon Van Derbeken, *Utility Company's Risk Assessment at*  
28 *Issue in NorCal Wildfires*, NBC Universal Media (Nov. 14, 2017),  
<https://www.nbcconnecticut.com/troubleshooters/national-investigations/PGE-Risk-Assessment-at-Issue-in-North-Bay-Wildfires-457356963.html>.

1 equipment was responsible for both ignition points of the Camp Fire and has since reported  
2 PG&E to the Butte County District Attorney based on evidence of safety violations.

3 276. Fourth, it has been documented that PG&E actually knew that it was not in  
4 compliance with relevant safety laws and best practices at the time of this statement. In  
5 proceedings related to PG&E's criminal probation before Judge Alsup, PG&E has admitted "that  
6 as of June 2017, there were 3,962 unworked trees which PG&E had identified in 2016 as  
7 hazardous with the potential to 'fall into or otherwise impact the conductors, towers or guy wires  
8 before the next inspection cycle.'" See ¶104.

9 277. Fifth, this statement materially omitted the true risk that PG&E would cause  
10 wildfires serious enough to imperil the Company's financial condition.

11 278. Thus, this statement was materially false and/or misleading because of PG&E's  
12 numerous and widespread violations of safety regulations, including regulations specifically  
13 related to vegetation management – regulations which were essential for preventing devastating  
14 wildfires. See Section VI.F.4. As Judge Alsup held, PG&E's "**unsafe conduct has led to**  
15 **recurring deadly wildfires caused by its electrical system**" and the "large number of trees that  
16 should have been removed by PG&E but weren't . . . was a major contributing factor, **maybe the**  
17 **single-biggest factor, in causing the fires** in 2017 and 2018 in Northern California." In fact,  
18 PG&E's violations were so pervasive that they evidently caused multiple North Bay Fires all at  
19 the same time in seven different counties, and then caused both of the Camp Fire's two ignition  
20 points a year later – therefore the violations cannot be explained away as an isolated lapse.

21 279. This statement regarding compliance was reviewed and authorized by Defendant  
22 Kane, in her capacity as PG&E's Chief Ethics and Compliance Officer. Kane was responsible  
23 for both "overseeing . . . implementation" of PG&E's compliance and "overseeing . . .  
24 compliance reporting," including this news release. Because of her senior position within the  
25 Company, Kane had ultimate authority to control the content of this statement.

1                   **5.       May 25, 2018 – Misstatement No. 13**

2           280.   On May 25, 2018, PG&E issued a press release to respond to Cal Fire’s reports  
3 regarding some of the October 2017 North Bay Fires (*see* Section VII.D.4, *infra*), to reassure  
4 investors that PG&E had met all state regulations concerning fire safety. The press release stated:

- 5                   • Following Governor Brown’s January 2014 Drought State  
6 of Emergency Proclamation and the California Public  
7 Utilities Commission’s Resolution ESRB-4, PG&E has  
8 added enhanced measures to address areas particularly  
9 affected by drought and bark beetles including:
- 10                  • Increased foot and aerial patrols along power lines in high  
11 fire-risk areas;
- 12                  • Removed approximately 236,000 dead or dying trees in  
13 2016 and 140,000 dead or dying trees in 2017; these tree  
14 removals were in addition to approximately 30,000 trees  
15 removed per year prior to the drought;
- 16                  • Launched daily aerial fire detection patrols during high fire  
17 season to improve fire spotting and speed of fire response;
- 18                  • Since 2014, provided \$11.4 million to local Fire Safe  
19 Councils (FSCs) for fuel reduction projects in  
20 communities; and
- 21                  • Provided \$1.7 million to local FSCs for 28 highly  
22 programmable remote-sensing cameras for critical fire  
23 lookout towers.
- 24                  • ***PG&E meets or exceeds regulatory requirements for pole***  
25 ***integrity management***, using a comprehensive database to  
26 manage multiple patrol and inspection schedules of our  
27 more than two million poles.

28           281.   This statement was materially false and/or misleading because PG&E did not  
“meet” – much less “exceed” – “regulatory requirements for pole integrity management.”  
According to a report released in a subsequent corrective disclosure, PG&E violated California’s  
safety regulations multiple times. Indeed, on June 8, 2018, Cal Fire disclosed that its  
“investigators have determined that 12 Northern California wildfires in the October 2017 Fire  
Siege were caused by electric power and distribution lines, conductors **and the failure of power**  
**poles.**” In fact, at least one of the North Bay Fires – the Sulphur Fire – “was caused by the failure  
of a PG&E owned power pole” evidencing “violations of state law” sufficient to be referred to  
the relevant district attorney. Further, Cal Fire found enough evidence of violations of state law



1 to refer PG&E to the relevant district attorneys for eight of these twelve North Bay fires. *See*  
 2 Section VII.D.5., *infra*.

3 282. Second, PG&E acknowledged that an aerial patrol of the Camp Fire’s origin later  
 4 the same day showed “damage to a transmission tower” or pole that PG&E failed to maintain, as  
 5 well as a second ignition point that exhibited damaged and downed poles, in violation of Section  
 6 451. Thus, PG&E did **not** “meet[] or exceed[] regulatory requirements for pole integrity  
 7 management” – regulations which were essential for preventing devastating wildfires. PG&E’s  
 8 representation to the contrary was materially false and/or misleading. Cal Fire has since  
 9 confirmed that PG&E equipment was responsible for both of the Camp Fire’s ignition points,  
 10 and referred its investigations to the relevant district attorney based on evidence of safety  
 11 violations.

12 283. Overall, this statement was materially false and/or misleading because of PG&E’s  
 13 numerous and widespread violations of safety regulations – regulations which were essential for  
 14 preventing devastating wildfires. In fact, PG&E’s violations were so pervasive that they  
 15 evidently caused multiple North Bay Fires all at the same time in seven different counties, and  
 16 then caused both of the Camp Fire’s two ignition points a year later – therefore the violations  
 17 cannot be explained away as an isolated lapse. This statement materially omitted the true risk  
 18 that PG&E would cause wildfires serious enough to imperil the Company’s financial condition.

19 284. It has additionally been documented that PG&E actually knew that it was not in  
 20 compliance with relevant safety laws and best practices at the time of this statement. In  
 21 proceedings related to PG&E’s criminal probation before Judge Alsup, PG&E has admitted “that  
 22 as of June 2017, there were 3,962 unworked trees which PG&E had identified in 2016 as  
 23 hazardous with the potential to ‘fall into or otherwise impact the conductors, towers or guy wires  
 24 before the next inspection cycle.’” *See* ¶104.

25 285. This statement regarding compliance was reviewed and authorized by Defendant  
 26 Kane, in her capacity as PG&E’s Chief Ethics and Compliance Officer. Kane was responsible  
 27 for both “overseeing . . . implementation” of PG&E’s compliance and “overseeing . . .  
 28

1 compliance reporting,” including this press release. Because of her senior position within the  
2 Company, Kane had ultimate authority to control the content of this statement.

3 **F. While the Truth Regarding PG&E’s Role in Causing the North Bay Fires**  
4 **EmergEd, the Company Made Additional False and Misleading Statements**  
5 **and Omissions Regarding Compliance with Wildfire-Related Safety**  
6 **Regulations, Including Its ESRB-8 Shutoff Protocol**

7 286. As detailed below (*see* Section VII.D., *infra*), PG&E’s share price declined  
8 precipitously as the truth about its responsibility for the North Bay Fires emerged. As liabilities  
9 for the North Bay Fires threatened the Company’s financial viability, Defendants would realize  
10 that the Company needed a legislative bailout to avoid bankruptcy. As a result, PG&E needed  
11 the public, including investors, to believe that it would prioritize safety thereafter.

12 **1. June 8, 2018 – Misstatement No. 14**

13 287. On June 8, 2018, Cal Fire announced its conclusions that PG&E caused the  
14 preponderance of the North Bay Fires (*see* Section VII.D.5, *infra*), PG&E’s share price  
15 continued its decline, and its financial situation deteriorated. Later that day, PG&E issued a  
16 press release to respond to Cal Fire’s report, falsely and misleadingly reassuring investors that  
17 PG&E had met all state regulations concerning fire safety. The press release, titled “PG&E  
18 Responds to Latest CAL FIRE Announcement” stated, in relevant part:

19 ***Programs Overall Met State’s High Standards***

20 We look forward to the opportunity to carefully review the  
21 CAL FIRE reports to understand the agency’s perspectives.

22 Based on the information we have so far, we continue to  
23 believe our overall programs met our state’s high standards.

24 For example, ***PG&E meets or exceeds regulatory***  
25 ***requirements for pole integrity management***, using a  
26 comprehensive database to manage multiple patrol and  
inspection schedules of our more than two million poles.

27 Similarly, ***under PG&E’s industry-leading Vegetation***  
28 ***Management Program***, we inspect and monitor every PG&E  
overhead electric transmission and distribution line each year,  
with some locations patrolled multiple times. We also prune or  
remove approximately 1.4 million trees annually.

29 288. Because PG&E’s compliance violations would soon cause the Camp Fire, the  
30 most destructive and deadly wildfire in California history, PG&E’s “Vegetation Management

1 Program” and “pole integrity management” decidedly did not meet California’s “High  
 2 Standards.” Investigations into the causes of the Camp Fire have already uncovered evidence  
 3 that it was caused by PG&E violating California Public Resources Code Section 4293 and  
 4 California Public Utilities Code Section 451, among other safety regulations. Indeed, Cal Fire  
 5 has found that PG&E equipment was responsible for both ignition points of the Camp Fire and  
 6 has since reported PG&E to the Butte County District Attorney based on evidence of safety  
 7 violations.

8 289. First, the Camp Fire was described in initial communications between firefighters  
 9 and dispatch as a vegetation fire “underneath the transmission lines,” which vegetation should  
 10 have been cleared by PG&E pursuant to Section 4293.

11 290. Second, PG&E acknowledged that an aerial patrol of the Camp Fire’s origin later  
 12 the same day showed “damage to a transmission tower” or pole that PG&E failed to maintain, in  
 13 violation of Section 451.

14 291. Third, PG&E has also acknowledged a second ignition point for the Camp Fire  
 15 that exhibited damaged and downed poles, vegetation on top of downed wires, and other signs of  
 16 safety violations. Cal Fire has since confirmed that PG&E equipment was responsible for both of  
 17 the Camp Fire’s ignition points, and referred its investigations to the relevant district attorney  
 18 based on evidence of safety violations.

19 292. Fourth, it has been documented that PG&E actually knew that it was not in  
 20 compliance with relevant safety laws and best practices at the time of this statement. In  
 21 proceedings related to PG&E’s criminal probation before Judge Alsup, PG&E has admitted “that  
 22 as of June 2017, there were 3,962 unworked trees which PG&E had identified in 2016 as  
 23 hazardous with the potential to ‘fall into or otherwise impact the conductors, towers or guy wires  
 24 before the next inspection cycle.’” See ¶104.

25 293. Fifth, this statement materially omitted the true risk that PG&E would cause  
 26 wildfires serious enough to imperil the Company’s financial condition.

27 294. Thus, PG&E did **not** “meet[] or exceed[] regulatory requirements for pole  
 28 integrity management” or “Vegetation Management” – regulations which were essential for



1 preventing devastating wildfires. *See* Section VI.F.4. As Judge Alsup held, PG&E’s “**unsafe**  
 2 **conduct has led to recurring deadly wildfires caused by its electrical system**” and the “large  
 3 number of trees that should have been removed by PG&E but weren’t . . . was a major  
 4 contributing factor, **maybe the single-biggest factor, in causing the fires** in 2017 and 2018 in  
 5 Northern California.” PG&E’s representation to the contrary was materially false and/or  
 6 misleading.

7 295. This statement regarding compliance was reviewed and authorized by Defendant  
 8 Kane, in her capacity as PG&E’s Chief Ethics and Compliance Officer. Kane was responsible  
 9 for both “overseeing . . . implementation” of PG&E’s compliance and “overseeing . . .  
 10 compliance reporting,” including this press release. Because of her senior position within the  
 11 Company, Kane had ultimate authority to control the content of this statement.

## 12 2. June 8, 2018 – Misstatement No. 15

13 296. The same press release contained a further false and/or misleading statement:

14 **To address the growing threats posed by wildfires and**  
 15 **extreme weather, and in light of the wildfires throughout**  
 16 **our state last year, PG&E has launched the *Community***  
 17 ***Wildfire Safety Program* to help keep our customers and**  
 18 **communities safe. Among the key components of the new**  
 19 **program are. . .**

- 20 • Public Safety Power Shutoff: As a last resort, ***a program to***  
 21 ***proactively turn off electric power for safety when***  
 22 ***extreme fire danger conditions occur***, while helping  
 23 customers prepare and providing early warning  
 24 notification, when and where possible.

25 297. PG&E’s representation that it “has launched . . . a program to proactively turn off  
 26 electric power for safety when extreme fire danger conditions occur” was false and misleading.  
 27 It was false because the touted program, which would eventually become its ESRB-8 Shutoff  
 28 Protocol, was illusory; hence, PG&E never “launched” it. Further, it misleadingly omitted that  
 any guidelines PG&E did develop were a mere pretense of safety that the Company did not  
 follow. Even when all seven relevant “extreme fire danger conditions” **did** “occur,” weighing  
 strongly in favor of shutting off PG&E’s transmission lines near the Jarbo Gap on November 7  
 and 8, 2018, PG&E flouted its own supposed program. PG&E’s failure to shut off its

1 transmission line caused the Camp Fire: the most destructive and deadly wildfire in California  
 2 history. By touting a wildfire safety program PG&E did not adhere to, and where its  
 3 nonadherence would risk devastating wildfires, PG&E misrepresented existing and material facts  
 4 to investors.

5 298. This press release regarding compliance was reviewed and authorized by  
 6 Defendant Kane, in her capacity as PG&E's Chief Ethics and Compliance Officer. Kane was  
 7 responsible for both "overseeing . . . implementation" of PG&E's compliance and "overseeing . .  
 8 . compliance reporting," including this press release. Because of her senior position within the  
 9 Company, Kane had ultimate authority to control the content of this statement.

### 10 3. September 27, 2018 – Misstatement No. 16

11 299. On July 16, 2018, the CPUC enacted Resolution ESRB-8, which required PG&E  
 12 to adopt, promulgate and follow "de-energization policy and procedures" to "de-energize power  
 13 lines" in the face of unprecedented wildfire threats "to ensure public safety." It was the  
 14 Company's official announcement of its de-energization policy and procedures implementing  
 15 Resolution ESRB-8, detailed below, that materially misled investors.

16 300. On or about September 27, 2018, PG&E announced the full details of its ESRB-8  
 17 Shutoff Protocol in a filing with CPUC<sup>100</sup> that was also posted on its website.<sup>101</sup> The ESRB-8  
 18 Shutoff Protocol stated:

19 PG&E's Community Wildfire Safety Program implements  
 20 additional precautionary measures intended to reduce wildfire  
 21 threats. *It includes . . . executing protocols to temporarily turn off  
 electric power for safety when extreme fire danger conditions are  
 occurring.*"

22 . . .

23 Public Safety Power Shutoff is one component of the Community  
 24 Wildfire Safety Program. *PG&E has created a set of procedures*

25 <sup>100</sup> PG&E Public Safety Power Shutoff Policies and Procedures, CPUC website (Sept. 2018),  
 26 [http://cpuc.ca.gov/uploadedFiles/CPUC\\_Public\\_Website/Content/News\\_Room/Public-Safety-  
 Power-Shutoff-Policies-and-Procedures-September-2018.pdf](http://cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/News_Room/Public-Safety-Power-Shutoff-Policies-and-Procedures-September-2018.pdf).

27 <sup>101</sup> PG&E Public Safety Power Shutoff Policies and Procedures, PG&E website (Sept. 2018),  
 28 [https://www.pge.com/pge\\_global/common/pdfs/safety/emergency-preparedness/natural-  
 disaster/wildfires/Public-Safety-Power-Shutoff-Policies-and-Procedures-September-2018.pdf](https://www.pge.com/pge_global/common/pdfs/safety/emergency-preparedness/natural-disaster/wildfires/Public-Safety-Power-Shutoff-Policies-and-Procedures-September-2018.pdf).

1 *for. . . [d]etermining what combination of conditions necessitates*  
 2 *turning off lines for safety.*

3 . . .

4 PG&E will take a combination of many criteria into consideration,  
 including:

- 5 • **“Extreme” fire danger threat level**, as classified by the  
 6 National Fire Danger Rating System
- 7 • **A Red Flag Warning declared** by the National Weather  
 8 Service
- 9 • **Low humidity levels**, generally 20 percent and below
- 10 • **Sustained winds** above approx. 25 mph and wind gusts in  
 11 excess of approx. 45 mph
- 12 • **Site-specific conditions** such as temperature, terrain and  
 13 local climate
- 14 • **Critically dry vegetation** that could serve as fuel for a  
 wildfire
- 15 • **On-the-ground, real-time observations** from PG&E field  
 16 crews

17 (Emphasis original.)

18 301. PG&E’s representation that it had “implement[ed] additional precautionary  
 19 measures” including “determining what combination of conditions necessitates turning off lines  
 20 for safety” was false and misleading. It was false because the ESRB-8 Shutoff Protocol was  
 21 illusory; hence, PG&E did not “implement” it, as required by law. Further, it misleadingly  
 22 omitted that any guidelines PG&E did develop were a mere pretense of safety that the Company  
 23 did not follow. Even when all seven relevant “criteria” weighed in favor of shutting off PG&E’s  
 24 transmission lines near the Jarbo Gap on November 7 and 8, 2018, PG&E nevertheless flouted  
 25 its protocol. PG&E’s failure to shut off its transmission line caused the Camp Fire: the most  
 26 destructive and deadly wildfire in California history. By touting a wildfire safety program  
 PG&E did not adhere to, where its nonadherence would risk devastating wildfires, PG&E  
 misrepresented existing and material facts to investors.

27 302. This statement regarding compliance was reviewed and authorized by Defendant  
 28 Kane, in her capacity as PG&E’s Chief Ethics and Compliance Officer. Kane was responsible

for both “overseeing . . . implementation” of PG&E’s compliance and “overseeing . . . compliance reporting,” including this report. Because of her senior position within the Company, Kane had ultimate authority to control the content of this statement.

#### 4. October 9, 2018 – Misstatement No. 17

303. On October 9, 2018 Cal Fire announced its conclusions that PG&E equipment caused another of the North Bay Fires, known as the Cascade Fire. Later the same day, PG&E issued a press release to respond to Cal Fire’s report, falsely and misleadingly reassuring investors that PG&E had met all state regulations concerning fire safety. The press release, titled “PG&E Responds to Cascade Wildfire Announcement” stated, in relevant part:

[W]e are continuing to focus on *implementing additional precautionary measures* intended to further reduce wildfire threats, such as *working to remove and reduce dangerous vegetation, improving weather forecasting, upgrading emergency response warnings, [and] making lines and poles stronger in high fire threat areas*, and taking other actions to make our system, and our customers and communities, *even safer* in the face of a growing wildfire threat.

304. It was false and misleading for PG&E to tout “implementing additional precautionary measures . . . to remove and reduce dangerous vegetation” and “mak[e] lines and poles stronger in high fire threat areas.” Indeed, just one month later, PG&E would cause the Camp Fire through its failure to remove vegetation and maintain its poles, in violation of California Public Resources Code Section 4293 and California Public Utilities Code Section 451, among other safety regulations.

305. As noted above, the Camp Fire was described in initial communications between firefighters and dispatch as a vegetation fire “underneath the transmission lines,” which vegetation should have been cleared by PG&E under Section 4293. Second, PG&E acknowledged that an aerial patrol of the Camp Fire’s origin later the same day showed “damage to a transmission tower” or pole that PG&E failed to maintain, as well as a second ignition point that exhibited damaged and downed poles, in violation of Section 451. PG&E’s representation to the contrary was materially false and/or misleading. Indeed, Cal Fire has found that PG&E

1 equipment was responsible for both ignition points of the Camp Fire and has since reported  
2 PG&E to the Butte County District Attorney based on evidence of safety violations.

3 306. Moreover, PG&E was **not** “making lines and poles stronger in high fire threat  
4 areas.” For example, PG&E never performed planned safety work on, or otherwise updated, the  
5 100 year-old Caribou-Palermo transmission line even though it knew that its lines and poles were  
6 weak and that “**the likelihood of failed structures happening is high**” (§136). The same  
7 transmission line would soon cause the Camp Fire’s first ignition point, as found by Cal Fire and  
8 accepted by PG&E (§138).

9 307. Further, this statement materially omitted the true risk that PG&E would cause  
10 wildfires serious enough to imperil the Company’s financial condition.

11 308. This statement regarding compliance was reviewed and authorized by Defendant  
12 Kane, in her capacity as PG&E’s Chief Ethics and Compliance Officer. Kane was responsible  
13 for both “overseeing . . . implementation” of PG&E’s compliance and “overseeing . . .  
14 compliance reporting,” including this press release. Because of her senior position within the  
15 Company, Kane had ultimate authority to control the content of this statement.

#### 16 5. October 9, 2018 – Misstatement No. 18

17 309. The same PG&E press release contained a further false and/or misleading  
18 statement:

19 To address the growing threats posed by wildfires and extreme  
20 weather, and in light of the wildfires throughout our state last  
21 year, ***PG&E has launched the Community Wildfire Safety***  
22 ***Program*** to help keep our customers and communities safe ***by***  
***implementing additional precautionary measures*** intended to  
further reduce wildfire threats. Among the key components of  
the new program are. . .

- 23 • Public Safety Power Shutoff: As a last resort, ***a program to***  
24 ***proactively turn off electric power for safety when***  
***extreme fire danger conditions occur***, while helping  
25 customers prepare and providing early warning  
notification, when and where possible.

26 310. PG&E’s representation that it “has launched” and “implement[ed] . . . a program  
27 to proactively turn off electric power for safety when extreme fire danger conditions occur” was  
28



1 false and misleading. It was false because the touted program, its ESRB-8 Shutoff Protocol, was  
 2 illusory from the beginning; hence, PG&E never “launched” or “implement[ed]” it.

3 311. Further, it misleadingly omitted that any guidelines PG&E did develop were a  
 4 mere pretense of safety that the Company did not follow. Even when all seven relevant “extreme  
 5 fire danger conditions” **did** “occur,” weighing in favor of shutting off PG&E’s transmission lines  
 6 near the Jarbo Gap on November 7 and 8, 2018, PG&E nevertheless flouted its supposed  
 7 program.

8 312. PG&E’s failure to shut off its transmission line caused the Camp Fire: the most  
 9 destructive and deadly wildfire in California history. By touting a wildfire safety program  
 10 PG&E did not adhere to, where its nonadherence would risk devastating wildfires, PG&E  
 11 misrepresented existing and material facts to investors.

12 313. This statement regarding compliance was reviewed and authorized by Defendant  
 13 Kane, in her capacity as PG&E’s Chief Ethics and Compliance Officer. Kane was responsible  
 14 for both “overseeing . . . implementation” of PG&E’s compliance and “overseeing . . .  
 15 compliance reporting,” including this press release. Because of her senior position within the  
 16 Company, Kane had ultimate authority to control the content of this statement.

#### 17 **6. November 8, 2018 – Misstatement No. 19**

18 314. On November 8, 2018, the Camp Fire started after PG&E decided not to shut off  
 19 its power. Before the public became aware of PG&E’s true role in causing the Camp Fire, the  
 20 Company announced via its official Twitter.com account at 6:14 p.m. that day: “PG&E has  
 21 determined that it will not proceed with plans today for a Public Safety Power Shutoff in portions  
 22 of 8 Northern CA counties, as *weather conditions did not warrant this safety measure*.”<sup>102</sup>

23 315. This statement was affirmatively false: weather conditions did, in fact, warrant a  
 24 shutoff. As detailed above, all seven criteria that PG&E deemed relevant, including those related  
 25  
 26

27 <sup>102</sup> PG&E Twitter Account Post (Nov. 8, 2018 3:14PM),  
 28 <https://twitter.com/PGE4Me/status/1060672000929267713>.

1 to weather conditions, weighed in favor of a shutoff under PG&E's ESRB-8 Shutoff Protocol.

2 *See* Section IV.H., *supra*.

3 316. This statement regarding compliance was reviewed and authorized by Defendant  
4 Kane, in her capacity as PG&E's Chief Ethics and Compliance Officer. Kane was responsible  
5 for both "overseeing . . . implementation" of PG&E's compliance and "overseeing . . .  
6 compliance reporting," including this announcement. Because of her senior position within the  
7 Company, Kane had ultimate authority to control the content of this statement.

#### 8 **VIII. MATERIALITY UNDER THE EXCHANGE ACT**

9 317. PG&E's reassurances to investors about its safety, prudence, and compliance with  
10 the law were especially important to investors because of California's legal regime known as  
11 inverse condemnation. As described in more detail above (*see* Section VI.A.5., *supra*), PG&E is  
12 strictly liable for the property costs of wildfires it caused. However, during the Class Period, it  
13 could be reimbursed for those costs by ratepayers by petitioning CPUC and showing that it had  
14 acted as a prudent manager. On such a showing, CPUC could have rate payers reimburse PG&E  
15 for some or all of its liability.

16 318. PG&E's investors understood that PG&E would bear the costs of wildfires it  
17 caused, and that PG&E's ability to pass some or all of those costs on to ratepayers was limited  
18 by PG&E's prudence. For example, an analyst report issued by Evercore ISI on December 21,  
19 2017 stated:

20 On the 3Q17 call PCG indicated company operations were  
21 conducted properly leading up to and after the fire, but they still  
22 had little information regarding the cause of the fire or potential  
23 shareholder exposure.

24 \* \* \*

25 PCG reiterated the company routinely inspects, maintains, and  
26 replaces poles, and tests and treats wood poles on a frequency that  
27 significantly exceeds CPUC requirements. The company claims to  
28 have one of, if not the most comprehensive vegetation  
management programs in the country. Further, the company  
doubled its vegetation management spending in 2016 due to the  
drought and tree mortality crisis in California. That being said, we  
still do not know and likely will not know what caused the various  
fires for some time, **whether or not PCG's equipment was solely  
or partly the cause**, and whether or not the facts will support a

1 ruling at CPUC that PCG **acted prudently** should they be  
2 successfully sued under inverse condemnation.

3 319. In light of these provisions of California law, PG&E's repeated reassurances to its  
4 investors – *e.g.*, that it complied with relevant safety regulations, doubled its vegetation  
5 management spending, inspected all of its powerlines every year, and would adhere to a formal  
6 ESRB-8 Shutoff Protocol – effectively communicated that the Company would be able to  
7 recover any property damage liabilities from wildfires caused by its systems, through the CPUC.  
8 Those reassurances, when revealed to have been false and misleading, impacted the Company's  
9 valuation by at least the amount of damage it caused by starting or exacerbating the North Bay  
10 and Camp Fires. The impact of these misstatements, and their importance to the Company's  
11 financial condition, is underscored by PG&E's decision to file for Chapter 11 bankruptcy based  
12 on its anticipated \$30 billion in potential liabilities tied to the North Bay and Camp Fires, and  
13 related concern that as a result, neither PG&E Corporation nor the Utility would be able "to  
14 continue as going concerns."

15 320. In total, PG&E's share price declined \$55.60 per share on the nine corrective  
16 disclosures and/or materializations of concealed risk herein alleged. Given that the Company had  
17 between approximately 514.4 and 518.6 million shares outstanding from October 24, 2017 to  
18 October 25, 2018, the losses caused by PG&E's fraud under the Exchange Act were in the  
19 billions of dollars.

## 20 **IX. LOSS CAUSATION UNDER THE EXCHANGE ACT**

### 21 **A. Defendants' False and Misleading Statements Artificially Inflated the Price 22 of PG&E's Securities**

23 321. As a result of their purchases of PG&E's securities during the Class Period, Lead  
24 Plaintiff and the other Class members suffered economic loss, *i.e.*, damages, under the federal  
25 securities laws. Defendants' false and misleading statements had the intended effect and caused  
26 PG&E securities to trade at artificially inflated levels throughout the Class Period, reaching as  
27 high as \$71.56 per share on September 11, 2017 – a month before the truth started to emerge on  
28 October 12, 2017.

**B. PG&E's Safety Violations Caused the Devastating North Bay Fires**

322. PG&E caused the North Bay Fires. Of the eighteen fires for which Cal Fire has determined the cause, it has determined that **seventeen were caused by PG&E equipment.**

323. Of these seventeen fires, Cal Fire determined that **eleven were due to PG&E's violation of California safety regulations.** Under California law, PG&E bears the cost for the destruction caused by these fires unless it can show to CPUC that its violations were "reasonable." Together, these fires were responsible for **more than 100,000 acres of land devastated, more than 2,000 structures destroyed, and at least 9 of the 44 North Bay Fire fatalities.**

324. Six more of the North Bay Fires were also deemed to have been caused by PG&E electrical lines; though Cal Fire found no specific evidence of safety violations for these six fires, PG&E may still be found liable under California's legal regime known as inverse condemnation, which provides strict liability for utilities when their power lines are involved in wildfires that lead to property damage. Together, these fires were responsible for an additional **more than 50,000 acres of land devastated, more than 800 structures destroyed, and at least 13 of 44 fatalities.** Necessarily, these six fires would have been more easily contained, and accordingly less destructive, if not for the fires caused by PG&E's violations and inadequate safety practices.<sup>103</sup>

**C. PG&E's Safety Violations Caused the Devastating Camp Fire**

325. At or about 6:29 a.m. on November 8, 2018, the Camp Fire was started in Pulga, California by faulty PG&E equipment on Pulga Road and Camp Creek Road, near the Jarbo Gap.<sup>104</sup> A second ignition point, also caused by faulty PG&E equipment, began approximately 15 minutes later near the community of Concow. The combined Camp Fire soon devastated

<sup>103</sup> Similarly, another of the North Bay Fires known as the Tubbs fire (which burned 36,807 acres, destroyed 5,636 structures, and resulted in 22 fatalities) would have been more easily contained, and accordingly less destructive, if not for the fires caused by PG&E's violations and inadequate safety practices at the same time.

<sup>104</sup> Camp Fire Incident Update (Nov. 25, 2018 7:00AM), [http://cdfdata.fire.ca.gov/admin8327985/cdf/images/incidentfile2277\\_4326.pdf](http://cdfdata.fire.ca.gov/admin8327985/cdf/images/incidentfile2277_4326.pdf).

several surrounding communities, largely destroying Paradise, Concow, Magalia, and Parkhill. The Camp Fire incinerated 153,336 acres, destroyed 18,804 structures, and killed at least 85 people.

326. As noted above, Cal Fire has concluded that PG&E caused both of the Camp Fire's two ignition points under circumstances evidencing violations of safety regulations and referred its investigation to the Butte County District Attorney.

**D. As the Market Learned About the Effects and Extent of PG&E's Inadequate Safety Practices, the Price of PG&E's Securities Fell Dramatically**

327. On or about October 8, 2017, eighteen major wildfires known as the North Bay Fires started in California, burning at least 249,000 acres and devastating properties across nine California counties.

**1. October 12, 2017 – Corrective Disclosure and/or Materialization of Concealed Risk**

**(a) The Market Began to Learn the Extent and Effects of PG&E's Responsibility for the North Bay Fires**

328. It was not until Thursday, October 12, 2017 that the market began to understand that PG&E's safety regulation violations were likely a proximate cause of the North Bay Fires. On that date, CPUC sent PG&E a litigation hold letter informing the Company of its "obligation to preserve all evidence with respect to the Northern California wildfires in Napa, Sonoma, and Solano Counties." Although this letter was made public on October 12, 2017, it "affirm[ed] a verbal communication" of the same obligation by CPUC Safety Enforcement Division Program Manager Charlotte TerKeurst to PG&E "at approximately 6:00 p.m. on October 10, 2017." The public disclosure on October 12, 2017 also revealed that "Ms. TerKeurst reminded PG&E of the need to preserve all evidence, and PG&E acknowledged that it would do so."

329. Further, the disclosure made clear that PG&E (a) "must preserve any factual or physical evidence ... includ[ing] **all failed poles, conductors and associated equipment from each fire event**" and (b) "must inform all employees and contractors that they must preserve all electronic (including emails) and non-electronic documents related to **potential causes of the**



1 **fires, vegetation management, maintenance and/or tree-trimming.”** This was the first  
 2 indication that PG&E failures caused any of the North Bay Fires.

3 330. On this news that PG&E would likely bear at least some responsibility for the  
 4 fires, PG&E’s stock dropped \$4.65 per share, from a closing price of \$69.15 on October 11 to a  
 5 closing price of \$64.50 on October 12, or -6.7%, with unusually heavy trading volume of almost  
 6 13 million shares (compared to a Class Period daily average trading volume of 3.5 million<sup>105</sup>).  
 7 The price of PG&E securities, however, remained artificially inflated.

8 **(b) Market Commentators Confirmed the Cause of PG&E’s Share**  
 9 **Price Decline on October 12, 2017**

10 331. The following morning, news outlets began to report that PG&E was being  
 11 connected with the causes of some of the North Bay fires. For example, at 10:54 a.m. on October  
 12 13, 2017, CNBC published an article titled “PG&E shares plunge on concern its power lines may  
 13 have started California wildfires.”<sup>106</sup> The article began by observing: “The California Public  
 14 Utilities Commission sent a letter on Thursday to PG&E reminding them to preserve ‘all  
 15 evidence with respect to the Northern California wildfires in Napa, Sonoma and Solano  
 16 Counties,’ according to multiple reports.” It continued to note that PG&E’s share price decline  
 17 occurred “on concerns its power lines may have started the massive wildfires that have ravaged  
 18 California recently.” The article also repeated market commentary that the decline in PG&E’s  
 19 share price reflected investors’ understanding that PG&E was financially responsible for the  
 20 North Bay Fires:

21 The drop in the stock “reflects the following assumptions: 1) the  
 22 fire was caused by PCG’s negligence, 2) insurance coverage for  
 23 3rd party liabilities will be very limited, 3) damage costs per acre  
 24 far larger than those for the 2015 Butte fire and 4) material fines  
 25 and penalties will be assessed,” Christopher Turnure, an analyst at  
 26 JPMorgan, said in a note Thursday. “We appreciate the severity of  
 27 the fires and the legal challenges of operating in California, but  
 28 estimate this loss of value as approaching a worst-case scenario for  
 PCG shares.”

<sup>105</sup> This average excludes alleged corrective disclosure and/or materialization of risk dates.

<sup>106</sup> This article was published prior to the Company’s corrective disclosure later that day,  
 discussed *infra*.

332. Similarly, on the same date, *SF Gate* published an article observing: “[T]he state agency that regulates utilities has told PG&E to save every piece of damaged equipment from the area as evidence for the investigations to come.” The article concluded by stating that PG&E’s vegetation management practices caused the North Bay Fires: “In all, the company spent \$198 million in 2016 on ‘vegetation management.’ But those efforts and that money – all of it coming from PG&E’s customers – **may not have been enough.**”<sup>107</sup>

333. Investors started to be concerned regarding whether PG&E violated any regulations (*e.g.*, failed to adequately trim trees) with respect to the North Bay Fires. For example, Wells Fargo stated in its analyst report the very next day:

Yesterday (10/12), shares of PCG underperformed the S&P Utilities by roughly 720 bps. We attribute the material decline in price to the revelation that the company’s power lines might have played a role in the Northern California fires. Over the weekend Northern California experienced winds in excess of 70 miles per hour, which could have caused trees to impact power lines that could have sparked fires particularly given the very dry vegetation. While there is still significant uncertainty in what caused the fires, apparently investigators are looking into the role of PCG’s infrastructure. **The concern for investors is whether PCG did not adequately trim trees around their power lines it is our understanding that in California utilities are required to clear vegetation within 10 feet of power lines. In the absence of inadequate tree trimming, we think that property damage attributable to PCG’s infrastructure should be largely covered by insurance.**

334. Similarly, an October 13, 2017 report by a Guggenheim stock analyst stated that the decline was caused by “media reports linking the company to some of the most destructive wildfires experienced in CA, which continued to burn.”

<sup>107</sup> David R. Baker, *PG&E Spent Millions on Fire Prevention; It May Not Have Been Enough*, San Francisco Gate (Oct. 13, 2017), <https://www.sfgate.com/bayarea/article/PG-E-millions-fire-prevention-Santa-Rosa-wildfires-12277237.php>.

1                   **2.      October 13-16, 2017 – Corrective Disclosure and/or Materialization of**  
 2                   **Concealed Risk**

3                   **(a)      The Market Continued to Learn the Extent and Effects of**  
 4                   **PG&E's Responsibility for the North Bay Fires**

5                   335.   Late on October 13, 2017, PG&E filed a Form 8-K with the SEC shortly before  
 6                   the close of trading. Therein, the Company stated in relevant part:

7                   **Investigation of Northern California Fires**

8                   Since October 8, 2017, several catastrophic wildfires have started  
 9                   and remain active in Northern California. The causes of these fires  
 10                  are being investigated by the California Department of Forestry  
 11                  and Fire Protection (Cal Fire), **including the possible role of**  
 12                  **power lines and other facilities of Pacific Gas and Electric**  
 13                  **Company's (the "Utility"), a subsidiary of PG&E Corporation.**

14                  It currently is unknown whether the Utility would have any  
 15                  liability associated with these fires. **The Utility has**  
 16                  **approximately \$800 million in liability insurance for potential**  
 17                  **losses that may result from these fires. If the amount of**  
 18                  **insurance is insufficient to cover the Utility's liability or if**  
 19                  **insurance is otherwise unavailable, PG&E Corporation's and**  
 20                  **the Utility's financial condition or results of operations could**  
 21                  **be materially affected.**

22                  336.   On these disclosures, PG&E's share price continued to decline. From its opening  
 23                  price of \$63.95 per share that day to its closing price of \$53.43 per share at the end of the next  
 24                  trading day (Monday, October 16, 2017), PG&E's stock declined \$10.52 per share, or  
 25                  approximately 16.5%. Over the same period, it experienced unusually heavy trading volume of  
 26                  over 68.5 million shares. The price of PG&E securities, however, remained artificially inflated.

27                  **(b)      Market Commentators Confirmed the Cause of PG&E's Share**  
 28                  **Price Decline on October 13, 2017**

29                  337.   Investors understood the Company's October 13, 2017 8-K filing as a disclosure  
 30                  that PG&E's conduct with respect to causing the North Bay Fires was greater in severity than  
 31                  previously disclosed and was a proximate cause of at least some of the North Bay Fires. Because  
 32                  the market understood that PG&E would be reimbursed for damages by fires it innocently  
 33                  caused, the Company's discussion of liability signaled to the market that at least some of the  
 34                  North Bay Fires were caused by PG&E's negligence or worse. For example, a Guggenheim  
 35                  stock analyst published a report that day reacting to this news, noting that PG&E "had slid even

1 further in the early afternoon actually as well, following the company's 8-K disclosing the  
 2 utility's \$800mm in liability insurance, which we noted had not been disclosed previously (since  
 3 it had been renewed following the Butte fire)."

4 338. PG&E's announcement and resulting share price decline were proximately caused  
 5 by PG&E's inadequate safety practices and violations that resulted in the North Bay Fires.

6 **3. December 20, 2017 – Corrective Disclosure and/or Materialization of**  
 7 **Concealed Risk**

8 **(a) The Market Continued to Learn the Extent and Effects of**  
 9 **PG&E's Responsibility for the North Bay Fires**

10 339. On December 20, 2017, after the market closed, PG&E filed a press release on  
 11 Form 8-K with the SEC titled "PG&E Announces Suspension of Dividend, Citing Uncertainty  
 12 Related to Causes and Potential Liabilities Associated with Northern California Wildfires." The  
 13 filing also included, as exhibit 99.1, a press release in which the Company announced that it  
 14 would be suspending its quarterly cash dividend. In the press release, PG&E stated in pertinent  
 15 part:

16 **SAN FRANCISCO, Calif.-PG&E Corporation (NYSE: PCG)**  
 17 **today announced that its Board of Directors has determined to**  
 18 **suspend the quarterly cash dividend on the Corporation's**  
 19 **common stock, beginning with the fourth quarter of 2017, citing**  
 20 **uncertainty related to causes and potential liabilities associated**  
 21 **with the extraordinary October 2017 Northern California**  
 22 **wildfires.**

23 In addition, the Board of Directors of the Corporation's utility  
 24 subsidiary, Pacific Gas and Electric Company, **determined to**  
 25 **suspend the dividend on the utility's preferred stock, beginning**  
 26 **with the three-month period ending Jan. 31, 2018, citing the**  
 27 **same uncertainty.**

28 No causes have yet been identified for any of the unprecedented  
 wildfires, which continue to be the subject of ongoing  
 investigations.

However, California is one of the only states in the country in  
 which courts have applied inverse condemnation **to events caused**  
**by utility equipment.** This means that if a utility's equipment is  
 found to have been a substantial cause of the damage in an event  
 such as a wildfire - even if the utility has followed established  
 inspection and safety rules - **the utility may still be liable for**  
**property damages and attorneys' fees associated with that**  
**event.**

1 “After extensive consideration and in light of the uncertainty  
2 associated with the causes and potential liabilities associated with  
3 these wildfires as well as state policy uncertainties, the PG&E  
4 boards determined that suspending the common and preferred  
5 stock dividends is prudent with respect to cash conservation and is  
6 in the best long-term interests of the companies, our customers and  
7 our shareholders,” said PG&E Corporation Chair of the Board  
8 Richard C. Kelly.

9 340. On this news, PG&E’s share price fell \$6.62, or 12.95%, to close at \$44.50 on  
10 December 21, 2017, the following trading day. The stock experienced heavy trading volume,  
11 with over 52 million shares trading hands.

12 341. Though PG&E had previously intertwined safety, fires, and its dividend (*see*  
13 ¶¶232), investors were shocked by this unexpected suspension of the dividends due to  
14 Defendants’ intervening false reassurances of progress on safety and compliance with safety  
15 regulations. Only six months prior, on May 31, 2017, PG&E had announced that it was  
16 **increasing** its dividend due to the Company’s “*progress on safety*.” Even more recently, for  
17 example on October 31, 2017, PG&E had reassured investors that it “*follows all applicable*  
18 *federal and state vegetation clearance requirements and performs regular power line tree*  
19 *safety activities in accordance with industry standards, guidelines, and acceptable procedures*  
20 *that help to reduce outages or fires caused by trees or other vegetation.*” And on November 2,  
21 2017, PG&E had repeatedly reassured investors that it had “*doubl[ed]*” its vegetation  
22 management expenditures. Accordingly, the true likelihood of PG&E’s responsibility for the  
23 North Bay Fires remained concealed from the market, and the price of PG&E securities  
24 remained artificially inflated.

25 **(b) Market Commentators Confirmed the Proximate Cause of**  
26 **PG&E’s Share Price Decline on December 20, 2017**

27 342. When PG&E announced it would suspend its dividend entirely, investors  
28 understood that as a revelation that Defendants’ prior representations regarding its safety  
operations may have been misleading and PG&E would bear a higher than expected level of  
responsibility, and thus liability, for the North Bay Fires.

343. For example, a RBC Capital Markets analysts report issued on December 21,  
2017, stated: “We downgrade PCG to Sector Perform following the Board’s decision to suspend



1 the dividend. **This unexpected decision suggests greater risk than we had assumed**  
 2 **surrounding regulatory treatment of the October 2017 Northern California wildfires.”**

3 344. Similarly, an analyst report issued by Evercore ISI the same day stated:

4 **On the 3Q17 call PCG indicated company operations were**  
 5 **conducted properly leading up to and after the fire. . . . PCG**  
 6 also indicated they found instances of wires down, vegetation near  
 7 PCG facilities and some broke poles. PCG reiterated the company  
 8 routinely inspects, maintains, and replaces poles, and tests and  
 9 treats wood poles on a frequency that significantly exceeds CPUC  
 10 requirements. The company claims to have one of, if not the most  
 11 comprehensive vegetation management programs in the country.

12 345. PG&E’s suspension of its dividend and resulting share price decline were  
 13 proximately caused by PG&E’s inadequate safety practices and violations that resulted in the  
 14 North Bay Fires.

15 **4. May 25, 2018 – Corrective Disclosure and/or Materialization of**  
 16 **Concealed Risk**

17 **(a) The Market Continued to Learn the Extent and Effects of**  
 18 **PG&E’s Responsibility for the North Bay Fires**

19 346. On May 25, 2018, Cal Fire issued a press release announcing the cause of four  
 20 wildfires in Butte and Nevada counties (“May 2018 Press Release”), stating in relevant part:

21 **CAL FIRE Investigators Determine Cause of Four Wildfires in**  
 22 **Butte and Nevada Counties**

23 Sacramento - After extensive and thorough investigations, CAL  
 24 FIRE investigators have determined that four Northern California  
 25 wildfires in last year’s October Fire Siege were caused by trees  
 26 coming into contact with power lines. The four fires, located in  
 27 Butte and Nevada counties, are the first fire investigations from  
 28 last October to be completed.

CAL FIRE investigators were dispatched to the fires last year and  
 immediately began working to determine their origin and cause.  
 The Department continues to investigate the remaining 2017 fires,  
 both in October and December, and will release additional reports  
 as they are completed.

The October 2017 Fire Siege involved more than 170 fires and  
 charred more than 245,000 acres in Northern California. More than  
 11,000 firefighters from 17 states helped battle the blazes.

Below is a summary of the four completed investigations:

- 1                   • The La Porte Fire, in Butte County, started in the early  
2 morning hours of Oct. 9 and burned a total of 8,417 acres,  
3 destroying 74 structures. There were no injuries to civilians  
4 or firefighters. CAL FIRE has determined the fire was  
5 caused by tree branches falling onto PG&E power lines.  
6 CAL FIRE investigators determined there were no  
7 violations of state law related to the cause of this fire.
- 8                   • The McCourtney Fire, in Nevada County, started the  
9 evening of Oct. 8 and burned a total of 76 acres, destroying  
10 13 structures. There were no injuries to civilians or  
11 firefighters. CAL FIRE has determined the fire was caused  
12 by a tree falling onto PG&E power lines. **The investigation  
13 found evidence that PG&E allegedly failed to remove a  
14 tree from the proximity of a power line, in violation of  
15 the state Public Resources Code section 4293.**
- 16                   • The Lobo Fire, in Nevada County, started the evening of  
17 Oct. 8 and burned a total of 821 acres, destroying 47  
18 structures. There were no injuries to civilians or  
19 firefighters. **CAL FIRE has determined the fire was  
20 caused by a tree contacting PG&E power lines. The  
21 investigation found evidence that Public Resources  
22 Code section 4293, which requires adequate clearance  
23 between trees and power lines, was allegedly violated.**
- 24                   • The Honey Fire, in Butte County, started in the early  
25 morning hours of Oct. 9 and burned a total of 76 acres.  
26 There were no injuries to civilians or firefighters and no  
27 structures were destroyed. **CAL FIRE has determined the  
28 fire was caused by an Oak branch contacting PG&E  
power lines. The investigation found evidence that  
Public Resources Code 4293, which requires adequate  
clearance between trees and power lines, was allegedly  
violated.**

The McCourtney, Lobo, Honey investigations have been referred to the appropriate county District Attorney's offices for review.

347. Then, early on May 29, 2018, prior to the start of trading, PG&E filed a Current Report on Form 8-K with the SEC. Rather than contradicting any of Cal Fire's findings, the filing quoted extensively from the May 25, 2018 Cal Fire release described above, including the role of PG&E equipment in starting all four of the relevant North Bay Fires, Cal Fire's findings that three of the fires were caused by violations of California safety laws, and Cal Fire's decision to refer criminal investigations regarding these three fires to the relevant district attorneys' offices. The filing also stated: "It is reasonably possible that facts could emerge that lead PG&E

1 Corporation and the Utility to believe that a loss is probable, resulting in an accrued liability in  
2 the future, the amount of which could be substantial.”

3 348. On this news, PG&E’s share price fell \$2.32, or 5.19%, to close at \$42.34 on May  
4 29, 2018, the following trading day. The stock experienced unusually high trading volume that  
5 day, with over 5.7 million shares changing hands on May 29, 2018. The price of PG&E  
6 securities, however, remained artificially inflated.

7 **(b) Market Commentators Confirmed that the News Regarding**  
8 **Safety Violations Proximately Caused PG&E’s Share Price**  
9 **Decline on May 25-29, 2018**

10 349. Analysts were surprised by the results of the Cal Fire reports. For example,  
11 Deutsche Bank stated in its May 28, 2018 report:

12 From the investor perspective the market should not be particularly  
13 surprised that PG&E’s lines have been found to be involved in  
14 starting the fires. **That said, the fact that this was the case in all**  
15 **four of the fires – and that violations were found in three of the**  
16 **four instances – will likely be seen as a negative data point.**  
17 Reading through the LaPorte fire investigation for other data  
18 points, investors may be concerned to note that the wind speeds  
19 around the time of the ignition do not seem to have been  
20 particularly high – with a maximum gust of 29 mph.

21 350. One Citigroup analyst wrote on May 29, 2018 that the new Cal Fire reports  
22 specifically “link the fires to [PG&E’s] equipment,” “claim improper vegetation management for  
23 three of the fires,” and were “suggesting negligence” on PG&E’s part. Based on this, the Cal Fire  
24 reports “will support ‘causation’ and likely lead to [PG&E] bearing the liability for damages  
25 under Inverse Condemnation.” Moreover, the analyst noted that PG&E might even be liable for  
26 “Gross Negligence,” and could be barred from recovering costs from ratepayers insofar as it  
27 would be “tough to meet” the “prudent manager” standard that is necessary for such a recovery.

28 351. Accordingly, the new information contained in these disclosures, including the  
severity of PG&E’s conduct and the role of its violations of California safety laws in causing the  
North Bay Fires, proximately caused PG&E’s share price decline.

352. Defendants, however, continued to mislead investors regarding the extent of  
PG&E’s safety deficiencies and the impact thereof.

1                               **5. June 8, 2018 – Corrective Disclosure and/or Materialization of**  
 2                               **Concealed Risk**

3                               353. On Friday, June 8, 2018, after the market closed, Cal Fire issued another press  
 4 release announcing the causes of twelve wildfires in Mendocino, Humboldt, Butte, Sonoma,  
 5 Lake, and Napa Counties, stating in relevant part:

6                               **CAL FIRE Investigators Determine Causes of 12 Wildfires in**  
 7                               **Mendocino, Humboldt, Butte, Sonoma, Lake, and Napa**  
 8                               **Counties**

9                               **Sacramento** – After extensive and thorough investigations, CAL  
 10 FIRE investigators have determined that 12 Northern California  
 11 wildfires in the October 2017 Fire Siege were caused by electric  
 12 power and distribution lines, conductors and the failure of power  
 13 poles.

14                               The October 2017 Fire Siege involved more than 170 fires and  
 15 burned at least 245,000 acres in Northern California. About 11,000  
 16 firefighters from 17 states and Australia helped battle the blazes.

17                               CAL FIRE investigators were dispatched to the fires last year and  
 18 immediately began working to determine their origin and cause.  
 19 CAL FIRE investigators continue to investigate the remaining  
 20 2017 fires, both in October and December, and will release  
 21 additional reports as they are completed. The cause of four  
 22 Northern California fires were released on May 25.

23                               Below is a summary of the findings from the 12 completed  
 24 investigations:

25                               The **Redwood Fire**, in Mendocino County, started the evening of  
 26 Oct. 8 and burned a total of 36,523 acres, destroying 543  
 27 structures. There were nine civilian fatalities and no injuries to  
 28 firefighters. CAL FIRE has determined the fire started in two  
 locations and was caused by tree or parts of trees falling onto  
 PG&E power lines.

The **Sulphur Fire**, in Lake County, started the evening of Oct. 8  
 and burned a total of 2,207 acres, destroying 162 structures. There  
 were no injuries. **CAL FIRE investigators determined the fire**  
**was caused by the failure of a PG&E owned power pole,**  
 resulting in the power lines and equipment coming in contact with  
 the ground.

The **Cherokee Fire**, in Butte County, started the evening of Oct. 8  
 and burned a total of 8,417 acres, destroying 6 structures. There  
 were no injuries. CAL FIRE investigators have determined the  
 cause of the fire was a result of tree limbs coming into contact with  
 PG&E power lines.

1 The **37 Fire**, in Sonoma County, started the evening of Oct. 9 and  
 2 burned a total of 1,660 acres, destroying 3 structures. There were  
 3 no injuries. CAL FIRE investigators have determined the cause of  
 the fire was electrical and was associated with the PG&E  
 distribution lines in the area.

4 The **Blue Fire**, in Humboldt County, started the afternoon of Oct.  
 5 8 and burned a total of 20 acres. There were no injuries. CAL  
 6 FIRE investigators have determined a PG&E power line conductor  
 separated from a connector, causing the conductor to fall to the  
 ground, starting the fire.

7 The Norrbom, Adobe, Partrick, Pythian and Nuns fires were part  
 8 of a series of fires that merged in Sonoma and Napa counties.  
 9 These fires started in the late-night hours of Oct. 8 and burned a  
 combined total of 56,556 acres, destroying 1355 structures. There  
 were three civilian fatalities.

10 CAL FIRE investigators determined the Norrbom Fire was  
 11 caused by a tree falling and coming in contact with PG&E  
 power lines.

12 CAL FIRE investigators determined the Adobe Fire was  
 13 caused by a eucalyptus tree falling into a PG&E powerline.

14 CAL FIRE investigators determined the Partrick Fire was  
 caused by an oak tree falling into PG&E powerlines.

15 CAL FIRE investigators determined **the Pythian Fire was**  
 16 **caused by a downed powerline after PG&E attempted to**  
**reenergize the line**

17 CAL FIRE investigators determined the Nuns Fire was caused  
 18 by a broken top of a tree coming in contact with a power line.

19 The **Pocket Fire**, in Sonoma County, started the early morning  
 20 hours of Oct. 9 and burned a total of 17,357 acres, destroying 6  
 21 structures. There were no injuries. CAL FIRE has determined the  
 fire was caused by the top of an oak tree breaking and coming into  
 contact with PG&E power lines.

22 The **Atlas Fire**, in Napa County, started the evening of Oct. 8 and  
 23 burned a total of 51,624 acres, destroying 783 structures. There  
 24 were six civilian fatalities. CAL FIRE investigators determined the  
 fire started in two locations. At one location, it was determined a  
 large limb broke from a tree and came into contact with a PG&E  
 power line. At the second location, investigators determined a tree  
 fell into the same line.

25 **CAL FIRE's investigations have been referred to the**  
 26 **appropriate county District Attorney's offices for review in**  
 27 **eight of the 12 fires - Sulphur, Blue, Norrbom, Partrick,**  
 28 **Pythian, Adobe, Pocket and Atlas - due to evidence of alleged**  
**violations of state law.**



354. While this news release did not discuss specific violations found, it disclosed that the causes of the fires involved PG&E equipment and vegetation, as well as the facts that Cal Fire referred its investigations to the relevant district attorneys of five counties due to evidence Cal Fire discovered of state law violations.

(a) **The Market Learned the Truth of PG&E's Continued, Unsafe Use of Reclosers**

355. By stating that "CAL FIRE investigators determined the Pythian Fire was caused by a downed powerline after PG&E attempted to reenergize the line," this press release revealed that the Pythian Fire had been proximately caused by PG&E's use of reclosers.

(b) **The Market Continued to Learn the Extent and Effects of PG&E's Safety Violations and Responsibility for the North Bay Fires**

356. On Saturday, June 9, 2018, *Bloomberg* published an article entitled "PG&E May Face Criminal Charges After Probe of Deadly Wildfires." The article reported, in part, that following an investigation into the causes of wildfires "that altogether killed 44 people, consumed thousands of homes and racked up an estimated \$10 billion in damages" in October 2017, California's fire agency "found evidence of alleged violations of law by PG&E in connection with" the fires. Specifically, the state's investigation found "that PG&E equipment caused at least 12 of the wine country blazes."

357. Early on Monday, June 11, 2018, prior to the start of trading, PG&E filed a Current Report on Form 8-K with the SEC. Rather than contradicting any of Cal Fire's findings, the filing quoted extensively from the June 8, 2018 Cal Fire release described above, including the role of PG&E equipment in starting all 12 of the relevant North Bay Fires and Cal Fire's decision to refer criminal investigations regarding eight of the fires to the relevant district attorneys' offices "due to evidence of alleged violations of state law." The filing also admitted that Defendants expected to "record a **significant liability** for losses associated with" at least 14 of the North Bay Fires, as follows:

Although the Utility's analysis is ongoing regarding the fires that were the subject of the June 8, 2018 and May 25, 2018 CAL FIRE news releases:

- for the La Porte, McCourtney, Lobo, Honey, Redwood, Sulphur, Cherokee, Blue, Pocket and Sonoma/Napa merged fires (which include Nuns, Norrbom, Adobe, Partrick and Pythian), based on the current state of the law on inverse condemnation, the information currently available to the Utility, and the CAL FIRE determinations of cause, **PG&E Corporation and the Utility currently expect that they will record a significant liability for losses associated with such fires** in PG&E Corporation and the Utility's condensed consolidated financial statements to be included in their Form 10-Q for the quarterly period ending June 30, 2018 (the "Q2 financial statements"); and
- for the Atlas and Highway 37 fires, PG&E Corporation and the Utility do not believe a loss is probable at this time, given the information currently available. However, **it is reasonably possible that facts could emerge that lead PG&E Corporation and the Utility to believe that a loss is probable**, resulting in the accrual of a liability in the future, the amount of which could be significant.

358. Following these disclosures, PG&E's share price fell \$1.69, or 4.08%, to close at \$39.76 on June 11, 2018, the following trading day. The stock experienced unusually high trading volume that day, with over 12.6 million shares trading hands on June 11, 2018. The price of PG&E securities, however, remained artificially inflated.

**(c) Market Commentators Confirmed that the Number and Range of Safety Violations Proximately Caused PG&E's Share Price Decline on June 8-11, 2018**

359. The market was surprised by the number and range of alleged violations of safety laws in the Cal Fire report. For example, in J.P. Morgan's analyst report on June 10, 2018, it stated that **"[w]ith this batch of reports, we find the range of 'alleged' law violations noteworthy. CAL FIRE opined on law regarding not just vegetation management but also pole and conductor failure and the re-energizing of equipment by the company."** Deutsche Bank also stated in its June 10, 2018 analyst report that **"[o]verall, Friday's data points are likely to be read as another negative for PCG, given the high percentages of incidents blamed on the company's lines and referred to DAs."** Guggenheim further reiterated its "Sell" recommendation on June 10, 2018 because **"[o]ut of the 16 fires now investigated thus far, PCG was found to have allegedly violated state law in 11 of those instances with Cal Fire referring its evidence to the District Attorney – likely a strong indictment to potential**

1 **criminal and civil cases/lawsuits against the company.”** The analyst from Guggenheim noted  
 2 that “all signs seem to point to PCG being imprudent operators in the majority of instances,  
 3 which would therefore mean it should assume liability.” Accordingly, the number and range of  
 4 safety violations proximately caused PG&E’s Share Price Decline on June 8-11, 2017.

5 360. On June 11, 2018, *Bloomberg* published an article reporting: “The company said  
 6 Monday it expects to record a ‘significant liability’ for fires, and the shares plunged the most in  
 7 five months at the open” of trading. The article also noted that “[t]he alleged violations could  
 8 also expose PG&E to criminal charges only two years after the San Francisco company was  
 9 convicted of breaking safety rules that led to a deadly gas pipeline explosion in San Bruno,  
 10 California.”

11 361. Accordingly, the new information contained in these June 8 and 11 disclosures,  
 12 including the severity of PG&E’s conduct, the role of its violations of California safety laws in  
 13 causing the North Bay Fires, and the “significant liability” it would incur as a result, proximately  
 14 caused PG&E’s share price decline.

15 362. Defendants, however, continued to mislead investors regarding the extent of  
 16 PG&E’s safety deficiencies and the impact thereof.

#### 17 **6. November 8-9, 2018 – Corrective Disclosure and/or Materialization of** 18 **Concealed Risk**

19 363. The Camp Fire began in the early morning of November 8, 2018 and grew  
 20 steadily throughout the day. However, as of the close of trading that day, no prominent news  
 21 sources had reported that PG&E may have caused it.

#### 22 **(a) The Market Began to Learn the Extent and** **Effects of PG&E’s Responsibility for the Camp Fire**

23 364. After the close of trading on November 8, 2018, PG&E announced via its official  
 24 Twitter.com account that it had decided not to implement its procedure for shutting power lines  
 25 during dangerous weather conditions. This communication was the first indication that PG&E’s  
 26 equipment and decisions may have contributed to the Camp Fire, undermining the Company’s  
 27 assurances to investors that it would comply with safety regulations and prioritize safety, detailed  
 28 above. While the announcement began to disclose the truth regarding PG&E’s responsibility for

1 the Camp Fire, it also contained a further false reassurance that PG&E's decision was because  
2 "*weather conditions did not warrant this safety measure*," as detailed above.

3 365. Also after the close of trading on November 8, 2018, PG&E filed an Electric  
4 Incident Report with the CPUC stating that PG&E had experienced a problem with its Caribou-  
5 Palermo high-voltage transmission line on "Pulga Rd. Pulga, Butte County" only fourteen  
6 minutes before the Camp Fire began, "in the area of the Camp Fire." The same report  
7 acknowledged that an aerial patrol later in the day showed "damage" to the same transmission  
8 tower. However, this information undermining PG&E's statements about compliance and  
9 prioritizing safety during the Class Period would not be reported by major news outlets until the  
10 next day, November 9, 2018.

11 366. On this news, PG&E's share price fell \$7.88, or approximately 19.7% to close at  
12 \$39.92 on November 9, 2018, the following trading day. The stock experienced unusually high  
13 trading volume of 23,627,100 shares. The price of PG&E securities, however, remained  
14 artificially inflated.

15 **(b) Market Commentators Confirmed the Cause of PG&E's**  
16 **November 9, 2018 Share Price Decline**

17 367. Market commentators confirmed that PG&E's share price declined due to news  
18 connecting PG&E to the Camp Fire, the true risk of which was concealed by PG&E's false and  
19 misleading statements and omissions.

20 368. On November 9, 2018, CNBC published an article entitled "Shares of electricity  
21 provider PG&E have worst day since 2002 as wildfires ravage California."<sup>108</sup> The article noted  
22 that "Shares of PG&E plunged more than 16 percent on Friday as wildfires continued to rage  
23 through California. This was the biggest one-day decline for the stock since Aug. 8, 2002. . . ."  
24 It further observed: "PG&E also traded 23.6 million shares, about five time [sic] its average 30-  
25 day volume." The article was initially published at 1:03 p.m. Eastern Time (*i.e.*, prior to the

26  
27 <sup>108</sup> Fred Imbert, *Shares of Electricity Provider PG&E Have Worst Day Since 2002 as*  
28 *Wildfires Ravage California*, CNBC (Nov. 9, 2018), <https://www.cnbc.com/2018/11/09/shares-of-electricity-provider-pge-plunge-as-wildfires-ravage-california.html>.

close of trading) and updated at 4:19 p.m. the same day (after the close of trading), yet made no mention of PG&E's Electric Incident Report tying the Company's equipment to the origin of the Camp Fire.

369. On November 9, 2018, Deutsche Bank described how investors were "understandably concerned" given the emerging news of the Camp Fire and S.B. 901's lack of provisions regarding 2018 wildfires:

While there has been no specific indication of utility lines being involved in these ignitions, investors are understandably concerned considering that the recently passed wildfire bill (SB901) left utilities particularly exposed to 2018 fires if their infrastructure ends up being implicated. This is due to the fact that the so-called stress test or customer harm threshold is only applicable to 2017 fire losses. Meanwhile, the new reasonableness standard which the CPUC will use to determine eligibility for recovery of liability costs from customers only kicks in from 2019.

370. A Barclays report from the same day supported the conclusion that investor concern regarding the Camp Fire and its lack of coverage by S.B. 901 were contributing to the stock price drop:

**We believe the lack of explicit language for 2018 wildfires in SB 901 may be increasing market pressure.** SB 901 specifically addresses 2017 wildfire liability by tasking the CPUC with creating a cap on IOU [Investor-Owned Utility] liability to ensure safe and affordable service. The bill addresses wildfire liability in 2019 and beyond by creating a securitization mechanism. However, specific language addressing 2018 liability coverage is noticeably absent. The general consensus among CA stakeholders is that 2018 will be treated in a similar fashion to 2017, however the lack of a specific prescription may be heightening investor concern if the Camp Fire is found to be started by PCG.

371. While this report stated that there was no indication yet that electrical equipment had caused the Camp Fire, it emphasized that PG&E's decision not to de-energize its lines could become a source of liability if PG&E equipment was found to be involved: "we expect PCG's decision not to de-energize lines after warning of high fire risk will be investigated if the fire is found to have been sparked by PCG equipment."



1                   7.       **November 9-12, 2018 – Corrective Disclosure and/or Materialization**  
 2                   **of Concealed Risk**

3                   (a)       **The Market Continued to Learn the Extent and Effects of**  
 4                   **PG&E's Responsibility for the Camp Fire**

5           372.    Because PG&E had concealed the extent of its safety violations and failures to  
 6   prioritize safety, the market was shocked to learn how much evidence supported the conclusion  
 7   that PG&E had not only caused the Camp Fire, but did so in a manner that violated state safety  
 8   regulations. Thus, investors began to learn the true likelihood and extent to which PG&E would  
 9   bear financial responsibility for the Camp Fire's destruction, *i.e.*, without eligibility for  
 reimbursement by ratepayers. *See* Section VIII, *supra*.

10          373.    After the close of trading on Friday, November 9, 2018, news outlets began to  
 11   report that there was evidence PG&E caused the Camp Fire based on PG&E's incident report the  
 12   previous evening. The first such report, written by Pulitzer Prize-winning journalist Matthias  
 13   Gafni and published in *Mercury News*, occurred at 5:49 p.m. EST on November 9, 2018.<sup>109</sup>

14          374.    On Saturday, November 10, 2018, it was reported that the town of Paradise was  
 15   destroyed as the Camp Fire continued to spread.<sup>110</sup> It was further reported that the fire had raced  
 16   through the communities of Concow and Magalia, causing at least nine fatalities and the loss of  
 17   at least 6,453 homes and 260 commercial buildings.<sup>111</sup> The Camp Fire grew in size and severity  
 18   over the weekend, with reports on Saturday that it had already consumed 70,000 acres and was  
 19   only 5 percent contained—with winds pushing it toward Chico and Yankee Hill. By Sunday  
 20   November 11, 2018, it was reported that more than 200 people were missing, the death toll had

23           <sup>109</sup> Matthias Gafni, *PG&E Power Lines May Have Sparked Deadly Camp Fire, According To*  
 24   *Radio Transmissions*, *Mercury News* (updated Nov. 12, 2018 12:03 PM),  
 25   [https://www.mercurynews.com/2018/11/09/pge-power-lines-may-have-sparked-deadly-butte-](https://www.mercurynews.com/2018/11/09/pge-power-lines-may-have-sparked-deadly-butte-county-wildfire-according-to-radio-transmissions/)  
 county-wildfire-according-to-radio-transmissions/.

26           <sup>110</sup> Anna Sciacca and Lisa Krieger, *'Our Town Has Burned': Most of Paradise is Lost After*  
 27   *Camp Fire Ravages the Area*, *Enterprise Record* (Nov. 10, 2018),  
 28   [https://www.chicoer.com/2018/11/10/our-town-has-burned-most-of-paradise-is-lost-after-camp-](https://www.chicoer.com/2018/11/10/our-town-has-burned-most-of-paradise-is-lost-after-camp-fire-ravages-the-area/)  
 fire-ravages-the-area/.

<sup>111</sup> *Id.*



1 risen to 29, and the fire—which had by then consumed 111,000 acres—was only 25 percent  
2 contained.<sup>112</sup>

3 375. Then on Monday, November 12, 2018, the next trading day, it was reported that  
4 Betsy Ann Cowley, a property owner in Pulga, received an email from PG&E the **day before** the  
5 Camp Fire ignited; the email communicated that the Utility needed access to her property to  
6 repair a transmission line that was “sparking.” It was further reported that the incident occurred  
7 near the origin point of the Camp Fire, with Cowley’s property next to the junction of Pulga and  
8 Camp Creek Road.

9 376. On this news, PG&E’s share price fell \$6.94, or 17.385%, to close at \$32.98 on  
10 November 12, 2018. The stock experienced a trading volume of 44,033,200 on November 12,  
11 2018. The price of PG&E securities, however, remained artificially inflated.

12 **(b) Market Commentators Confirmed the Cause of PG&E’s**  
13 **November 9-12, 2018 Share Price Decline.**

14 377. Investors were concerned over this evidence that PG&E’s safety violations likely  
15 caused the Camp Fire, including the impact on PG&E’s likely liability of Cowley’s comments to  
16 the press regarding PG&E’s knowledge of transmission line problems in the area. As a result,  
17 PG&E’s stock price continued to drop. As the *San Francisco Chronicle* reported on November  
18 12, 2018, “Cowley’s revelation came as shares of Pacific Gas and Electric Co.’s parent company  
19 plummeted Monday amid concerns from investors about the utility’s liability connected to the  
20 Camp Fire.”<sup>113</sup>

21 378. Similarly, a Wells Fargo analyst report observed the same day that “[t]he Camp  
22 Fire is in PCG’s service territory and there are initial indications that the company’s transmission  
23 infrastructure may have been a root cause of the fire pending an investigation by Cal Fire.”

24 <sup>112</sup> Melody Gutierrez, *More than 200 Remain Missing in Camp Fire*, San Francisco Chronicle  
25 (Nov. 8, 2018), <https://www.sfchronicle.com/california-wildfires/article/100-missing-in-Camp-Fire-butte-county-death-toll-13382433.php>.

26 <sup>113</sup> J.D. Morris and Kurtis Alexander, *Homeowner’s Claim on PG&E Work Raises Questions*  
27 *on Camp Fire’s Origin*, San Francisco Chronicle (Nov. 12, 2018),  
28 <https://www.sfchronicle.com/california-wildfires/article/PG-E-stock-hammered-on-wildfire-fallout-13384830.php>.

379. A Macquarie Research analyst report on November 13, 2018 estimated PG&E's fire-related liabilities at \$8 billion, while noting that the real measure of PG&E's liability could be higher given that the Camp Fire was not yet contained:

We've reduced our [target price] to US\$45 from US\$57, is based on 10.4x our '20E EPS vs 13.6x previously. Our new [target price] reflects incremental ~US\$8bn in fire-related liabilities, which we hope proves excessive given the stress test included in the SB901, but we have no way to assess the potential liabilities as the fire is only 30% contained.

380. A November 13, 2018 Bloomberg Intelligence report remarked that the analyst **expected** PG&E's liability to **exceed its total equity valued** absent additional assistance from the California government, and that such a bailout was not certain: "Unless mitigated by regulators, we expect PG&E's write-offs could exceed the company's total equity. California's utility owners are dangerously squeezed between two forces: Onerous inverse-condemnation rule makes utilities liable for most of the billions in fire damage, but powerful political resistance prevents customer bills from rising much above inflation."

#### **8. November 13-14, 2018 – Corrective Disclosure and/or Materialization of Concealed Risk**

##### **(a) The Market Continued to Learn the Extent and Effects of PG&E's Responsibility for the Camp Fire**

381. After the close of trading on November 13, 2018, PG&E released a Form 8-K that showed a much bleaker picture of PG&E's deteriorating financial situation than investors had reason to expect, even calling into question its ability to remain solvent in the face of mounting evidence of its liability for the Camp Fire. The SEC filing admitted, among other things, that PG&E's and the Utility's revolving credit facilities were fully drawn and that its liability for the Camp Fire could exceed its insurance:

#### **Item 2.03. Creation of a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement of a Registrant**

As of November 13, 2018, Pacific Gas and Electric Company ("Utility"), a subsidiary of PG&E Corporation, and PG&E Corporation have aggregate borrowings outstanding under their respective revolving credit facilities of \$3.0 billion and \$300 million, respectively. . . . **No additional amounts are available under the Utility's and PG&E Corporation's respective**

1 revolving credit facilities.

2 \* \* \*

3 **Item 8.01 Other Events.**

4 *Camp Fire*

5 On November 8, 2018, a wildfire began near the city of  
6 Paradise, Butte County, California (the “Camp Fire”), located in  
the service territory of the Utility. . . .

7 As previously reported, during the third quarter of 2018,  
8 PG&E Corporation and the Utility renewed their liability insurance  
coverage for wildfire events in an aggregate amount of  
9 approximately \$1.4 billion for the period from August 1, 2018  
through July 31, 2019. . . .

10 While the cause of the Camp Fire is still under  
11 investigation, if the Utility’s equipment is determined to be the  
cause, the Utility could be subject to significant liability in excess  
12 of insurance coverage that would be expected to have a material  
impact on PG&E Corporation’s and the Utility’s financial  
condition, results of operations, liquidity, and cash flows.

13 382. On this news, PG&E’s share price fell \$7.13, or 21.791%. to close at \$25.59 on  
14 November 14, 2018. The stock experienced high trading volume of 53,543,100. The price of  
15 PG&E securities, however, remained artificially inflated.

16 **(b) Market Commentators Confirmed the Cause of PG&E’s Share**  
17 **Price Decline on November 14, 2018**

18 383. Analyst commentary attributed the drop in PG&E’s stock price to news about  
19 PG&E’s insufficient insurance coverage and deteriorating financial situation, including the  
20 chance of bankruptcy, revealed in PG&E’s Form 8-K disclosures published after the market  
21 closed the previous day.

22 384. CNBC reported that PG&E’s Form 8-K disclosures were responsible for the drop  
23 in stock price on November 14, 2018:

24 Shares of utility PG&E fell 21 percent on Wednesday after the  
25 company said that if its equipment is responsible for the “Camp  
Fire” burning in Northern California, the cost of the damage would  
exceed its insurance coverage and **harm its financial health**. . . .  
26 “With these borrowings, the entire credit facility has been drawn  
and PG&E now has \$3.5 billion of cash on its balance sheet,” Citi  
27  
28

analyst Praful Mehta wrote in a note Wednesday. “We think the primary driver could be a concern around a downgrade to a non-investment grade credit rating and the liquidity requirements as a result of the downgrade.”<sup>114</sup>

385. Similarly, a November 14, 2018 Bloomberg Intelligence report also connected PG&E’s Form 8-K disclosures to its share price decline afterward, stating that the filing indicated the Company’s own concern about bankruptcy:

**The abrupt drawdown of its entire \$3.3 billion in revolving credit suggests to us that PG&E (PCG -22%) is concerned about a near-term cash and credit crunch.** The company warned of bankruptcy earlier this year, and **the situation is more desperate now.** If found liable for California’s Camp Fire, which may match or surpass 2017’s \$15 billion in damages, the total exceeds PG&E’s book equity and annual revenue.

**9. November 15, 2018 – Corrective Disclosure and/or Materialization of Concealed Risk**

**(a) The Market Continued to Learn the Extent and Effects of PG&E’s Responsibility for the Camp Fire**

386. On November 15, 2018, Cal Fire announced that it had identified a second ignition point for the Camp Fire.<sup>115</sup> This news further evidenced the extent of PG&E’s responsibility for the Camp Fire, undermining the Company’s assurances to investors that it would comply with safety regulations and prioritize safety, detailed above.

387. On this news, PG&E’s share price fell \$7.85, or 30.676%, to close at \$17.74 on November 15, 2018. The stock experienced its highest trading volume during the Class Period of 107,155,700 on November 15, 2018.

<sup>114</sup> Thomas Franck, *PG&E Plunges 21% Amid Disclosure of an ‘Electric Incident’ Just Before Wildfire*, CNBC (Nov. 14, 2018), <https://www.cnbc.com/2018/11/14/pge-plunges-20percent-after-disclosing-an-electric-incident-just-before-fire.html>.

<sup>115</sup> Andre Byik, *Camp Fire Investigation Leads To Possible Second Origin Away From Pulga*, Enterprise-Record (updated Nov. 15, 2018 10:06 PM), <https://www.chicoer.com/2018/11/15/camp-fire-investigation-leads-to-another-area-away-from-pulga/>.

**(b) Market Commentators Confirmed the Cause of PG&E's Share Price Decline on November 15, 2018**

388. Market commentary confirmed that the November 15, 2018 decline in PG&E's share price was due to mounting evidence of PG&E's liability for the Camp Fire and chance of bankruptcy, the true risk of which was concealed by PG&E's false and misleading statements and omissions. Indeed, PG&E's share price declined until CPUC President Michael Picker commented after the close of trading that day that he did not want the Company to become bankrupt. A *Bloomberg* article reported: "His comments capped a roller-coaster week for PG&E shares. They lost about two-thirds of their value during several days of free fall, then partially rebounded Friday after Picker said he doesn't want the company to slide into bankruptcy."<sup>116</sup>

389. A J.P. Morgan report from November 16, 2018 noted that the market was affected by continued uncertainty over California's willingness to aid PG&E:

**if one assumes for sake of argument a \$30Bn grand total of liabilities for the 2017-18 events for PCG, a 40 year amortization of securitized debt would still only be \$10/month for the average customer; this would be even less if a multibillion dollar stress test cap was absorbed by the company;** it is a small price to pay for safe electric service and environmental goals. We remain focused on upcoming policymaker statements on the issue, and the pending CPUC implementation of securitization and stress-test mandates created with SB901. We acknowledge the long and challenging road ahead for investors, but see too much at stake for the state to realistically abandon utilities given the above considerations

\* \* \*

390. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Lead Plaintiff and other Class members have suffered significant losses and damages.

<sup>116</sup> David R. Baker, Mark Chediak & Romy Varghese, *PG&E State Review Puts Board Shuffle and Breakup on the Table*, *Bloomberg* (updated Nov. 17, 2018 12:00AM), <https://www.bloomberg.com/news/articles/2018-11-16/pg-e-soars-after-regulator-eases-concern-on-bankruptcy-risk>.

1 **X. SCIENTER UNDER THE EXCHANGE ACT**

2 391. The public was surprised to learn the extent to which PG&E had misled everyone  
 3 about its lack of safety procedures related to wildfire prevention and responsibility for the North  
 4 Bay and Camp Fires. Based on the extensive, widespread, and egregious nature of PG&E's  
 5 underlying noncompliance and disregard for safety, there is a strong inference that PG&E itself,  
 6 and the officers who spoke on its behalf and controlled its public statements, knew or should  
 7 have known the truth. As detailed below, they either knew the material, adverse facts about  
 8 PG&E's lack of safety undermining and contradicting their public representations, or were  
 9 culpably reckless in avoiding knowledge of and/or disregarding that reality. Thus, throughout  
 10 the Class Period, Defendants acted with scienter (a) by making false and misleading statements  
 11 and omissions about PG&E's financial health and compliance with relevant safety rules and  
 12 regulations while having actual knowledge of their false or misleading nature, and/or (b) by  
 13 acting in a deliberately reckless manner.

14 **A. PG&E Knew that Its Safety Practices Continued to Violate the Law Even**  
 15 **After PG&E Was on Notice of the Butte Fire Safety Violations**

16 392. As detailed above, PG&E's safety lapses caused the 2015 Butte Fire when a tree  
 17 came into contact with PG&E's power line due to PG&E violating multiple safety regulations.  
 18 At the time, the Butte Fire was the seventh most destructive wildfire in California history; it  
 19 killed two people, destroyed 921 homes, and destroyed more than 70,000 acres over 22 days. As  
 20 noted above (¶¶127-28) and described in more detail below (¶569), PG&E had a company policy  
 21 to perversely incentivize its contractors to clear less vegetation than is safe.

22 393. Even after PG&E caused the disastrous Butte Fire through its serious fire safety  
 23 lapses, PG&E made **no changes at all** to improve its vegetation management or compliance with  
 24 safety regulations. In a deposition transcript that has not yet been made publicly available,  
 25 PG&E's Vegetation Program Manager Richard Yarnell reportedly testified under oath:  
 26 "PG&E—to the best of my knowledge, we have not made any changes as a result of this fire."  
 27 Despite being on notice of its dangerous safety violations, neither the Company nor its officers  
 28



1 made any changes to improve safety or compliance. Thus, they either knew, or should have  
2 presumed, that its violations continued unabated.

3 394. On March 5, 2019, Judge Alsup, presiding over PG&E's criminal probation,  
4 issued a revised Order to Show Cause relating to PG&E's lack of compliance with vegetation  
5 management and other safety regulations. The Order contained the following findings  
6 summarizing the results of the federal court's probe into PG&E's actual knowledge of safety  
7 violations leading up to the North Bay and Camp Fires:

8 PG&E's filings have included several relevant admissions.  
9 Significantly, PG&E acknowledged "that vegetation contact is the  
10 primary risk driver with respect to ignitions on its distribution  
11 lines." ("Vegetation" means trees and limbs in this context.) In  
12 2016 alone, PG&E experienced approximately 1,400 wires down  
13 caused by vegetation contact. As PG&E reported to the CPUC,  
14 during 2015 and 2016, vegetation contact with conductors was the  
15 leading cause of the 486 fire ignitions associated with PG&E  
16 facilities, causing 37% of those fires. PG&E further admitted that  
17 as of June 2017, there were 3,962 unworked trees which PG&E  
18 had identified in 2016 as hazardous with the potential to "fall into  
19 or otherwise impact the conductors, towers or guy wires before the  
20 next inspection cycle."<sup>117</sup>

21 395. Thus, PG&E has admitted its **actual knowledge from 2015 to 2017** that its  
22 vegetation management practices did not comply with California safety regulations on the order  
23 of **thousands of violations per year**. PG&E has further admitted to **actually knowing** that its  
24 violations have **caused hundreds of wildfires per year since 2015**. However, PG&E never  
25 disclosed to investors that their own internal compliance reviews showed a lack of compliance  
26 on a huge scale.

27 396. In the time period of 2017 to 2018, after the North Bay Fires and leading up to the  
28 Camp Fire, PG&E's notice of its numerous and widespread safety violations was even stronger.  
For example, PG&E had known about the dangerous noncompliance of its Caribou-Palermo  
transmission line – the same line whose failure would cause the Camp Fire's first ignition point –

<sup>117</sup> Second Order to Show Cause Why PG&E's Conditions of Probation Should Not Be Modified, PG&E Criminal Proceedings (N.D. Cal. Mar. 5, 2019), ECF No. 1027.

1 since a 2014 internal Company email stated that “the likelihood of failed structures [on the  
2 Caribou-Palermo line] happening is high.”

3 **B. Safety Was Core to PG&E’s Operations, and the Exchange Act Individual**  
4 **Defendants Were Directly Involved in It**

5 397. In a January 16, 2019 filing to the CPUC, PG&E stated unequivocally that safety  
6 is its “core business,” and as such, was the “focus” of Defendant Williams’s activities as CEO:  
7 “Since the Utility is the sole operating subsidiary of PG&E Corporation, the activities of the  
8 PG&E Corporation CEO and President **focus on** the Utility’s **core business**, including most  
9 notably **safety**.”<sup>118</sup>

10 398. During the Class Period, PG&E repeatedly acknowledged that “[s]afety is at the  
11 heart of everything we do at PG&E” (Geisha Williams, July 27, 2017 Analyst Call), that safety  
12 was PG&E’s “top priority” (Patrick Hogan, November 18, 2015 California Senate Sub-  
13 Committee Hearing), and that “[n]othing is more important than the safety of our customers,  
14 employees and the communities we serve” (Kevin Dasso, vice president of Electric Asset  
15 Management, May 10, 2017 Press Release). PG&E further represented to the public that PG&E’s  
16 safety and compliance were closely monitored by the Company’s management and the Exchange  
17 Act Individual Defendants. For instance, the PG&E Board’s Finance Committee was alleged in  
18 a separate lawsuit over the Butte Fire – where litigation is still ongoing – to have been “actively  
19 involved in, and responsible for, assisting the Boards in their oversight of safety risk through its  
20 review of strategies to manage the largest individual risks identified in the enterprise risk  
21 management program,” including the risk of “wildfire.” Indeed, because the Company faced the  
22 possibility of strict liability for property damages caused by wildfires, and such liability could  
23 not only be extraordinary but also non-reimbursable if its officers had not acted “prudently,”  
24 wildfire safety was a particular focus of the Exchange Act Individual Defendants, who spoke  
25 personally on the subject with investors and regulators throughout the Class Period. Further,

26  
27 <sup>118</sup> Summary of Corporate Structure of Pacific Gas and Electric Company (U 39 M) and  
28 PG&E Corporation (Cal. Public Utilities Commission filed Jan. 16, 2019),  
<http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M263/K658/263658434.PDF>.

1 Defendants' repeated misrepresentations about PG&E's safety and compliance record concerned  
 2 the Company's core operations. Therefore, the Exchange Act Individual Defendants, by virtue of  
 3 the importance of safety to the Company and their positions as its leaders, reasonably had  
 4 knowledge about PG&E's safety and regulatory failures during the Class Period.

5 399. As discussed in Sections VI.C. and VI.D., *supra*, the Exchange Act Individual  
 6 Defendants repeatedly spoke to investors on the specifics of PG&E's vegetation management  
 7 procedures and results. For example, they kept investors apprised about how many hundreds of  
 8 thousands of trees the Company was trimming and removing, including how many thousands  
 9 were "dead or dying." Not only that, but the Exchange Act Individual Defendants also inflated  
 10 these numbers over time without explanation, raising the number of trees supposedly trimmed or  
 11 removed from 1.2 million to 1.4 million. In both reporting and inflating these numbers, the  
 12 Exchange Act Individual Defendants showed they knew that vegetation management and  
 13 compliance was important to investors on a granular level.

14 400. A core operation concerns a company's primary products or services, and it  
 15 extends to matters of importance that might significantly impact the company's bottom line.  
 16 There is no question that PG&E's safety policies and procedures were critically important to the  
 17 Company's operations. In addition to the fact that PG&E repeatedly acknowledged this reality, it  
 18 is also notable that PG&E is potentially facing \$30 billion of liability or more due to its failures,  
 19 and that California's regulatory regime imposes significant liability for PG&E's vegetation  
 20 management and other safety failures. This is strong evidence of the centrality of the Company's  
 21 wildfire safety and compliance regime.

22 401. In a separate lawsuit that was filed in connection with the Butte Fire, it was  
 23 publicly alleged – based on discovery and deposition testimony that has **not** yet been publicly  
 24 revealed – that Exchange Act Individual Defendants Williams and Hogan both served on an  
 25 Executive Officer Risk & Compliance Committee that was charged with monitoring vegetation  
 26 management issues. Further, according to the parties litigating against PG&E for injuries caused  
 27  
 28

1 by the 2015 Butte Fire, Defendant Hogan's and another individual's<sup>119</sup> deposition testimony  
 2 purportedly showed that "PG&E knows and accepts that 1-in-100 trees will be non-compliant,  
 3 and that 1-in-1000 will be touching its powerlines." As noted above, this means noncompliance  
 4 for approximately 1.2 million trees in PG&E's territory of 123 million trees, approximately  
 5 123,000 of which are safety violations in the nature of trees touching its powerlines at any given  
 6 time. *See* Section IV.F.4.

7 402. Just months before the North Bay Fires broke out, United States District Judge  
 8 Thelton E. Henderson in the Northern District of California ordered that PG&E work with  
 9 federal prosecutors to retain a monitor to oversee the Company's compliance and ethics  
 10 programs, and implement "policies and procedures that address threats caused by vegetation," in  
 11 light of the deadly San Bruno explosion. Order at 3, PG&E Criminal Proceedings, (N.D. Cal.  
 12 Jan. 26, 2017), ECF No. 916 (the "San Bruno Order"). As part of the sentencing process, PG&E  
 13 had promised the Court that Defendant Julie Kane – as Chief Ethics and Compliance Officer of  
 14 the Company – "reports directly to PG&E Corporation's Chairman and CEO" regarding PG&E's  
 15 compliance efforts, and that "PG&E's senior executives" regularly reviewed the Company's  
 16 safety and compliance, such that "high-level personnel of the organization ensure its  
 17 effectiveness." *Id.*, Def's Sentencing Memo. at 6-7, PG&E Criminal Proceedings (N.D. Cal. Jan.  
 18 9, 2017), ECF No. 906. Accordingly, Exchange Act Individual Defendants Kane, Earley, and  
 19 Williams had actual knowledge of PG&E's lack of compliance.

20 403. Because the Defendants represented that they closely monitored PG&E's  
 21 critically important safety and compliance, and because PG&E's fire safety practices resulted in  
 22 thousands of fire safety violations during the Class Period, they knew – or were deliberately  
 23 reckless in not knowing – that PG&E's level of safety with respect to vegetation management  
 24 and wildfire prevention did not comport with state law.

25  
 26  
 27 <sup>119</sup> Court filings identify this individual as Dean McFarren, PG&E's Quality Assurance  
 28 Supervisor.

C. **The Federal Court Overseeing PG&E's Probation, Including Safety Monitoring, Has Uncovered Additional Facts Supporting Scierter**

404. As described above, *see supra* Section IV.F.2., PG&E was convicted of five felony counts for knowingly and willfully violating federal safety standards in causing the deadly San Bruno explosion in September 2010. On January 26, 2017, Judge Henderson sentenced PG&E to an expansive program of probation, including a corporate compliance and ethics monitorship program, 10,000 hours of community service, expenditure of \$3 million to inform the public of its criminal conduct, and a mandate to refrain from any further criminal behavior. San Bruno Order.

405. The first condition to PG&E's probation is that it "Not Commit Another Federal, State, or Local Crime During the Term of the Probation." PG&E did not object to this term in its responsive sentencing memorandum. PG&E Sentencing Memorandum at 15, PG&E Criminal Proceedings (N.D. Cal. Jan. 9, 2017), ECF No. 906. PG&E reassured the Court, prosecutors, the public, and its investors that it would not engage in further criminal acts, including criminally negligent or reckless safety violations. This condition of PG&E's probation applied to PG&E's electrical operations and gas operations alike. Accordingly, as of January 8, 2017, PG&E had an unusual motive to deceive investors and conceal its lack of compliance with safety regulations: it needed investors to believe it was meeting the terms of its probation.

406. On August 14, 2017, Judge Alsup was assigned to preside over the criminal case and PG&E's resulting probation.

407. After the deadly Camp Fire, Judge Alsup ordered the parties on November 27, 2018 to answer the following questions by December 31, 2018:

1. What requirements of the judgment herein, including the requirement against further federal, state, or local crimes, might be implicated were any wildfire started by **reckless operation or maintenance of PG&E power lines**?
2. What requirements of the judgment herein might be implicated by any inaccurate, slow, or failed reporting of information about any wildfire by PG&E?
3. What specific steps has the monitor herein taken to monitor and improve PG&E safety and reporting with respect to power lines and wildfires?



1                   4. **Provide an accurate and complete statement of the role, if**  
 2                   **any, of PG&E in causing and reporting the recent Camp Fire**  
 3                   **in Butte County** and all other wildfires in California since the  
 judgment herein.

4                   408. On December 5, 2018, Judge Alsup requested “that the Office of the California  
 5 Attorney General advise the Court of its view on one aspect of this question, namely, the extent  
 6 to which, if at all, **the reckless operation or maintenance of PG&E power lines would**  
 7 **constitute a crime under California law.**” In response, the Attorney General of California  
 8 replied that PG&E’s actions or failures to act could constitute a range of criminal violations if the  
 9 Utility was found to be “reckless” in causing California wildfires.<sup>120</sup> The listed potential  
 10 offenses ranged from “misdemeanor offenses related to vegetation and power lines” to “implied-  
 11 malice murder and involuntary manslaughter.”

12                   409. On January 17, 2019, Judge Alsup issued a tentative finding that “the single most  
 13 recurring cause of the large 2017 and 2018 wildfires attributable to PG&E’s equipment has been  
 14 **the susceptibility of PG&E’s distribution lines to trees or limbs falling onto them** during  
 high-wind events.”<sup>121</sup>

15                   410. On January 30, 2019, Judge Alsup held a probationary hearing to determine  
 16 whether PG&E’s conduct had violated the terms of its probation. Part of the hearing concerned  
 17 PG&E’s failure to inform the probation officer that the Butte County District Attorney’s Office  
 18 was investigating PG&E’s role starting several of the North Bay Fires, that the District Attorney  
 19 considered criminal prosecution, and that it executed a settlement with PG&E to avoid such  
 20 prosecution. The court made a “**find[ing] that PG&E violated the conditions of probation,**”  
 21 with sentencing to be determined at a later date.<sup>122</sup> Judge Alsup also reminded the Company:

22                               [O]ne of the conditions of probation is you will not commit  
 23                               another federal, state, or local crime. It doesn’t have to be a  
 24                               pipeline or a natural gas. It can be any crime. You cannot – you’ve

25 <sup>120</sup>Attorney General’s Amicus Brief Regarding PG&E’s Potential Criminal Liability, PG&E  
 26 Criminal Proceedings (N.D. Cal. Dec. 28, 2018), ECF No. 954.

27 <sup>121</sup>U.S. Response to Court’s Order to Show Cause and Request for Comment, PG&E  
 Criminal Proceedings (N.D. Cal. Jan. 17, 2019), ECF No. 970.

28 <sup>122</sup>Transcript of Proceedings, PG&E Criminal Proceedings (N.D. Cal. Jan. 31 2019), ECF  
 No. 999.



got to be on your absolute best behavior. No more crimes. . . .  
That's what PG&E is up against now.

411. During the hearing, Judge Alsup reportedly stated: “[T]here is one very clear-cut pattern here: That PG&E is starting these fires. . . . PG&E, according to Cal Fire, started the fire. Global warming did not start the fire. According to Cal Fire, PG&E started it, all 17 of them.” Judge Alsup continued, “what do we do[?] Does the judge just turn a blind eye and say, ‘PG&E, continue your business as usual. Kill more people by starting more fires’?”<sup>123</sup> Judge Alsup heard testimony from PG&E’s probation officer, Jennifer Hutchings, concerning the Honey Fire – one of the North Bay Fires for which Cal Fire found evidence of a safety violation and referred further criminal investigation to the relevant district attorney for Butte County. Probation Officer Hutchings testified: “I discovered that there had actually been an extensive investigation done by Butte County, that they were fully prepared to bring criminal charges against Pacific Gas and Electric; that Pacific Gas and Electric had entered into a settlement agreement with them in order to avoid these charges being brought.” **The court then made a “find[ing] that PG&E violated the conditions of probation as charged in the Form 12.”** Thereafter, the court turned to address whether it “should not impose further condition on PG&E to help protect the public from possible further other crimes of the offender,” including the following exchange with PG&E representative:

The Court: Okay. When you say “mitigate,” why can’t the risk [of wildfire] be zero? Why is it that PG&E should be permitted to start a single wildfire?”

PG&E: Well, the answer to the first question is bringing the risk to zero is an incredibly complicated series of policy decisions that have to factor in reliability, cost, safety, and there’s a tremendous amount of analysis that goes into how best to, for instance, make vegetation management decisions and how aggressive vegetation management should be versus the cost of –

. . .

<sup>123</sup> Transcript of Proceedings, PG&E Criminal Proceedings (N.D. Cal. Jan. 31 2019), ECF No. 999.

The Court: So why is it PG&E says all the time “Safety is our number one thing”? I hear it all the time, “Safety. Safety. Safety,” **but it’s not really true. Safety is not your number one thing.**

At the conclusion of this proceeding, PG&E accepted that full compliance with safety regulations, rather than “mitigation,” was both possible and PG&E’s goal: “[U]ltimately we agree with Your Honor’s goal. We think that Your Honor’s goal of trying to eliminate the risk is exactly what we all need to be working towards.”

412. On February 6, 2019, attorneys for fire victims provided a submission to Judge Alsup in response to the January 30, 2019 probationary hearing.<sup>124</sup> The submission compiled data from PG&E’s regulators which demonstrated that the Company posed a far greater risk to the public than its peers. For example, according to the submission, Southern California Edison (“SoCalEd”) serves 15 million people across approximately 50,000 square-miles, operating and maintaining 91,375 miles of distribution lines and 1,433,336 electric poles. By comparison, PG&E services approximately 16 million people throughout a 70,000-square-mile service area, operating and maintaining between 81,000 miles and 115,000 miles of distribution lines and 2,400,000 electric poles. Yet, despite these similarities in service size and miles of distribution lines, ***PG&E’s electrical equipment caused 1,208 more wildfires than SoCalEd’s equipment between 2014 to 2017*** as self-reported to the CPUC. In total, PG&E’s equipment caused 1,552 wildfires, while SoCalEd only caused 344 fires over the same time period. Put differently, PG&E’s equipment caused ***4.5 times more wildfires*** than SoCalEd. PG&E’s equipment was also responsible for more large-scale fires, including 43 more fires than SoCalEd that burned between 10-99 acres, three more between 100-299 acres, and two more between 300-999 acres. Similarly, since 2014, the electrical equipment of San Diego Gas & Electric (“SDG&E”) caused 109 wildfires with only one wildfire burning over 10 (and below 300) acres. By contrast, PG&E caused 1,552 wildfires during that same timeframe with 68 of those fires burning over 10 acres.

<sup>124</sup> Submission of Attorneys Pitre and Campora in Response to Order dated Jan. 30, 2019, PG&E Criminal Proceedings (N.D. Cal. Feb. 6, 2019), ECF No. 1005.

1           413. On March 5, 2019, Judge Alsup issued a revised order to show cause as to why  
 2 the court should not modify the terms of PG&E's probation in light of subsequent  
 3 submissions.<sup>125</sup> Judge Alsup's Revised Order further found that this **"record demonstrates that**  
 4 **PG&E's performance with respect to vegetation management has been dismal."** Although  
 5 PG&E had previously balked at new conditions of probation that would require full compliance  
 6 on the grounds that they would be impossible to achieve, Judge Alsup's March 5, 2019 order  
 7 rejected that notion:

8           To address PG&E's complaints that the vegetation-management  
 9 conditions proposed in the January 9 order would be unduly  
 10 expensive, require superhuman efforts, and exceed the  
 11 requirements of state and federal law, the above conditions would  
 12 now simply require full compliance with existing law and with the  
 13 metrics proposed in PG&E's own wildfire mitigation plan. This  
 14 order rejects PG&E's back-up contention that "perfect  
 15 compliance" with Section 4293 is impossible due to "densely  
 16 forested, highly dynamic, living environments, in which conditions  
 17 can rapidly change" (Dkt. No. 1016 at 9). **The record**  
 18 **demonstrates that PG&E's performance with respect to**  
 19 **vegetation management has been dismal.** And, not only does the  
 20 offender provide no evidentiary support for its claim, but anyone  
 21 who knows the terrain and its vegetation knows that it takes years  
 22 for trees to grow to the height of PG&E's lines. Regular  
 23 inspections could easily spot trees that are high enough to present a  
 24 hazard. If state or federal law is too strict, moreover, PG&E's  
 25 remedy would be to seek the relaxation of such laws through its  
 26 well-oiled lobbying efforts. . . . The proposed conditions would  
 27 help ensure that, going forward, funds are adequately allocated to  
 28 PG&E's vegetation management and wildfire mitigation costs.<sup>126</sup>

19           414. On April 2, 2019, Judge Alsup held a hearing on his second order to show cause  
 20 in PG&E's probation proceedings. At the hearing, Judge Alsup stated:

21           PG&E over several years allowed the trees that needed to be  
 22 removed to be built up and did not remove them, did not trim them  
 23 so that we wound up with a large number of trees that should have  
 24 been removed by PG&E but weren't. And that was a major  
 25 contributing factor, maybe the single-biggest factor, in causing the  
 26 fires in 2017 and 2018 in Northern California.<sup>127</sup>

25           <sup>125</sup> Second Order to Show Cause Why PG&E's Conditions of Probation Should Not Be  
 26 Modified, PG&E Criminal Proceedings (N.D. Cal. Mar. 5, 2019), ECF No. 1027.

26           <sup>126</sup> Second Order to Show Cause Why PG&E's Conditions of Probation Should Not Be  
 27 Modified, PG&E Criminal Proceedings (N.D. Cal. Mar. 5, 2019), ECF No. 1027.

27           <sup>127</sup> Transcript of Proceedings at 6-7, PG&E Criminal Proceedings (N.D. Cal. Apr. 2, 2019),  
 28 ECF No. 1047.

1 Judge Alsup also explained “as we’ve gotten into the evidence, and I’ve studied quite a lot of it,  
 2 again I want to say it’s quite clear that PG&E . . . let the tree budget wither so that a lot of trees  
 3 that should have been taken down were not.” He concluded, “[t]his is a crisis, a crisis that  
 4 California faces on these wildfires, and PG&E is the single-most culpable entity in the mix. . . .  
 5 PG&E has started more than – way more than its share of these fires. . . This is a problem of  
 6 your own making.”

7 415. Under these circumstances, PG&E’s violation of court-imposed probation and  
 8 California law, while under monitoring and reporting obligations regarding its purported  
 9 compliance throughout the Class Period, support strong inferences that Defendants knew, or  
 10 were severely reckless in not knowing, that it failed to comply with relevant laws and regulations  
 11 when making the false and misleading statements detailed above.

12 416. As a result, on April 3, 2019, Judge Alsup issued an Order Adopting New  
 13 Conditions of Probation. The court modified the terms of PG&E’s probation to require it to (i)  
 14 “fully comply with all applicable laws concerning vegetation management and clearance  
 15 requirements”; (ii) “fully comply with the specific targets and metrics set forth in its” 2019  
 16 Mitigation Plan, and (iii) not issue dividends until it was in compliance with all applicable  
 17 vegetation management requirements, among other conditions.<sup>128</sup>

18 417. On May 7, 2019, Judge Alsup conducted a sentencing hearing for PG&E’s  
 19 violation of probation. In a colloquy with PG&E’s new CEO William D. Johnson, the Court  
 20 stated: “one of the biggest problems we’ve had is that PG&E has been starting a lot of fires, and  
 21 they had that horrible explosion in San Bruno, and **I just don’t think PG&E has put safety**  
 22 **first.**” He further reminded the new CEO: “your company **admitted** that it started 17 of those  
 23 fires in 2017 just in the Wine Country.”<sup>129</sup>

26 <sup>128</sup> Order Adopting New Conditions of Probation, PG&E Criminal Proceedings (N.D. Cal.  
 27 Apr. 3, 2019), ECF No. 1040.

28 <sup>129</sup> Transcript of Proceedings at 11, PG&E Criminal Proceedings, (N.D. Cal. May 7, 2019),  
 ECF No. 1061.

1           418. During the sentencing hearing, Judge Alsup also observed that while there are  
2 other causes of fire, **“no one has started more fires than PG&E.”**

3           419. The magnitude of PG&E’s failures show that the Company and Exchange Act  
4 Individual Defendants either knew these facts, or were deliberately reckless in not knowing  
5 them. The inference of scienter is made even stronger when combined with the fact that safety  
6 was a core operation of PG&E’s, as discussed in Section X.B., *supra*.

7           **D. PG&E’s Noncompliance with Safety Regulations Was Well-Known**  
8           **Throughout the Company, Including at the Highest Levels, with Real-Time**  
9           **Access to a Database of Known Safety Violations**

10           **1. PG&E Recorded Its Violations of Safety Regulations in a**  
11           **Sophisticated Database, Readily Accessible by the Exchange Act**  
12           **Individual Defendants**

13           420. PG&E maintained a database of inspection data to document the condition of its  
14 power lines, which provided its personnel with ready access to information about instances of  
15 noncompliance with state safety regulations. In a November 8, 2017 article about its pole  
16 management and maintenance efforts, PG&E stated that it **“uses a comprehensive database to**  
17 **manage these multiple patrol and inspection schedules of our 2.4 million poles.”**<sup>130</sup>

18           421. This information was used to develop the company’s *Mobile Asset Inspection*  
19 application that provided “electric power inspectors in the field with real-time information  
20 including maps, customer information, safety and access information.”<sup>131</sup> The system was  
21 developed in 2016 and had become sophisticated enough by 2017 to win *InformationWeek*’s IT  
22 Excellence Award in the Data and Analytics category.<sup>132</sup> The article further states that  
23 **“[s]atellite maps were layered with the location of PG&E’s two million electric poles along**  
24 **with decades’ worth of data on each individual pole.”**<sup>133</sup> PG&E’s 2016 Corporate

25           <sup>130</sup> *Facts about PG&E Pole Management and Maintenance*, Currents, PG&E (Nov. 8, 2017),  
26 <http://www.pgecurrents.com/2017/11/08/facts-about-pge-pole-management-and-maintenance/>.

27           <sup>131</sup> Press Release, PG&E, *Innovative App for PGE Field Crews Earns InformationWeek IT*  
28 *Excellence Award* (May 22, 2017), <http://investor.pgecorp.com/news-events/press-releases/press-release-details/2017/Innovative-App-for-PGE-Field-Crews-Earns-InformationWeek-IT-Excellence-Award/default.aspx>.

<sup>132</sup> *Id.*

<sup>133</sup> *Id.*



Responsibility and Sustainability Report announced that a Margaret Mooney Award for Innovation was awarded to its “Data Visualization—Google Earth SAP team, which created a new technology that provides work crews with a dramatically enhanced data visualization of **work in progress.**” The report further mentioned “[t]he development of an SAP-based **compliance tool** that can analyze trends and inform [PG&E’s] risk management efforts.” Thus, PG&E used sophisticated software that kept track of its safety regulation noncompliance for its powerlines and poles in real time.

422. PG&E assigns a unique “pole SAP ID number” that corresponds to each pole’s data.<sup>134</sup> According to an *InformationWeek* article about PG&E’s mobile application, “[t]he **status of a pole’s inspection is tracked in SAP [database technology] so the inspection team knows when it’s time to inspect each pole.** That information flows into the enterprise platform PG&E built, which pushes electronic lists to inspectors’ iPad Pros.”<sup>135</sup> The data collected is extensive enough to enable “an enterprise data and analytics organization that is using advanced analytics to predict when poles will fail.”<sup>136</sup> And by 2017, the PG&E Corporate Responsibility and Sustainability Report mentions that the company’s “SAP-based tool” was used to analyze trends in environmental compliance. Thus, PG&E’s records of safety regulation violations were stored in a readily accessible database. Defendants Earley, Williams, Stavropoulos, Kane, Johns, and Hogan each had easy access to this database.

423. Furthermore, in its submissions to Judge Alsup in the Company’s criminal probation, PG&E represented that it conducts quality assurance audits to obtain “real time” assessments of its vegetation management compliance:

PG&E has also implemented checks on its contractors’ vegetation management work as another way to monitor compliance. For example, PG&E conducts audits and reviews of its vegetation

<sup>134</sup> PG&E Pole Data Request Form, PG&E (Aug. 9, 2017), [https://www.pge.com/pge\\_global/common/pdfs/safety/yard-safety/powerlines-and-trees/pole-data-request-form.pdf](https://www.pge.com/pge_global/common/pdfs/safety/yard-safety/powerlines-and-trees/pole-data-request-form.pdf).

<sup>135</sup> Lisa Morgan, *PG&E’s Winning Recipe for a Mobile Asset Inspection App*, *InformationWeek* (June 29, 2017), <https://www.informationweek.com/big-data/pgandes-winning-recipe-for-a-mobile-asset-inspection-app/d-id/1329251>.

<sup>136</sup> *Id.*

management program to assess the quality of contractors' work and compliance with PG&E's standards and legal requirements, including Public Resource Code § 4293. PG&E's audit and review process consists primarily of two programs, Quality Control ("QC") and Quality Assurance ("QA"). . . .

**PG&E's QA audits are designed to obtain a "real-time" assessment of PG&E's vegetation management program and whether the conditions in its service territory are consistent with PG&E's legal obligations.** To ascertain a true "real-time" condition of the program, audits are performed throughout the year. . . . The audits indicate whether any identified issues pose compliance violations or potential violations (e.g., potential violation may occur within 90 days).<sup>137</sup>

424. Further, in those same criminal probation proceedings, Judge Alsup found that PG&E has admitted "that as of June 2017, there were 3,962 unworked trees which PG&E had identified in 2016 as hazardous with the potential to 'fall into or otherwise impact the conductors, towers or guy wires before the next inspection cycle.'" Such a precise admission confirms the existence of such a database, awareness of its contents showing that vegetation management violations were widespread during the Class Period, and access to that information by the highest levels.

425. Consequently, it is clear that PG&E was noncompliant with safety regulations concerning vegetation management and pole integrity, and that such facts would have been documented electronically, stored in an accessible SAP database, and available to PG&E personnel throughout the Company in real-time. Defendants Earley, Williams, Stavropoulos, Kane, Johns, and Hogan each had easy access to this database.

## **2. PG&E Instituted a Culture Among Its On-the-Ground Employees of Reporting Problems up the Corporate Chain, Which Upper Management Was Aware of and Monitored**

426. PG&E repeatedly touted the culture among its lower-level employees that encouraged reporting safety problems up the chain of management. Further, the Exchange Act Individual Defendants touted their knowledge and familiarity with this practice at the Company,

<sup>137</sup> PG&E Response to Request for Information at 12, PG&E Criminal Proceedings (N.D. Cal. Feb. 22, 2019), ECF No. 1016.

1 indicating either they personally received information of safety violations this way, or they knew  
2 where to find such information but deliberately avoided it.

3 427. On August 18, 2016, PG&E issued a press release titled “PG&E Becomes First  
4 Natural Gas Utility to Receive Process Safety.” It contained a description of an internal  
5 Company policy termed “**The Corrective Action Program, a program that empowers  
6 employees at all levels of PG&E to speak up and identify issues that are in need of  
7 improvement.**”

8 428. On November 4, 2016, PG&E hosted a conference call with analysts to discuss its  
9 financial results for the third quarter of 2016. In his prepared remarks, Earley elaborated on  
10 PG&E’s culture of encouraging “every employee” to report safety violations up the chain of  
11 command, as follows:

12 **We also wanted to make sure that every employee felt**  
13 **comfortable raising concerns, no matter how big or small, so**  
14 **we made a number of changes to encourage all employees to**  
15 **speak up when something doesn’t seem right. For example, we**  
16 **worked with our unions to develop a non-punitive self-**  
17 **reporting policy.**

18 We’ve also adapted the nuclear industry’s corrective action  
19 program **across the Company, to make it easy for employees to**  
20 **report things that need to be fixed. In fact, employees can now**  
21 **report corrective action items through a simple app on their**  
22 **smart devices. And we’ve created a number of awards to**  
23 **publicly recognize employees when they do speak up, so that**  
24 **we are encouraging and reinforcing that behavior.**

25 \* \* \*

26 **The improvements we have made in safety and reliability over**  
27 **the last six years have put us in a position to deliver strong**  
28 **financial results going forward.**

**Earlier this year, we announced our first dividend increase in**  
**six years, and we have committed to achieving a roughly 60%**  
**payout ratio by 2019.** Combined with our expected rate based  
growth, we are confident we can deliver a strong overall return for  
our shareholders.

429. Thus, PG&E went significantly beyond making employees feel safe “report[ing]  
things that need to be fixed.” The CEO himself took credit for “mak[ing] sure that every  
employee felt comfortable raising concerns” and “encourag[ing] all employees to speak up”